

COMMISSION COMMENTS ON THE SYSTEMS' PRELIMINARY FUNDING GAP REPORTS



CALIFORNIA
POSTSECONDARY
EDUCATION
COMMISSION

Summary

Supplemental Budget Language to the State's 1991-92 State Budget directed the California Community Colleges, the California State University, the University of California, and the California Student Aid Commission to prepare "funding gap" reports to document the gap or difference between their State appropriation and the funding needed to support their unique missions under the State's Master Plan. In addition, each was asked to comment on the impact that its funding gap has had on student access and program quality, along with its plans for maintaining its mission given its current State funding and its recommendations for future funding of the system. Each was to submit a preliminary report by December 15, 1991, and a final report by April 1, 1992.

The Supplemental Budget Language also directed the Commission to comment and review both the preliminary and final reports submitted by the systems. This report represents the Commission's response to the systems' first set of documents.

Following an introductory section, this document reviews the systems' preliminary reports beginning with that of the California Community Colleges and followed by those of the California State University, the University of California, and the California Student Aid Commission. For each report, it summarizes (1) the overall content, (2) highlights of the report, (3) likely effects of the Governor's proposed 1992-93 State Budget on the principle issues raised in the report, and (4) issues that need to be addressed in each system's final funding gap report in order for the system to be responsive to the Legislature's Supplemental Report Language. Attached to this document as appendices are the four reports themselves.

The Commission adopted this document at its meeting of March 30, 1992, on recommendation of its Ad Hoc Committee on Student Fees, Financial Aid, and the State Budget. Additional copies of the report may be obtained from the Publications Office of the Commission at (916) 324-4992.

Later this year, after the Commission receives the final funding gap reports from the systems and the Student Aid Commission, it will issue a follow-up document to this one, reviewing and commenting on those reports. In the meantime, as part of the Postsecondary Education Commission's continuing work on issues of educational equity, the Commission will analyze the impact that underfunding of the systems is having on the State's progress toward its educational equity goals.

COMMISSION COMMENTS ON THE SYSTEMS' PRELIMINARY FUNDING GAP REPORTS

*A Report to the Legislature and the Governor
in Response to Supplemental Report
Language of the 1991 Budget Act*

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Commission Comments on the Systems' Preliminary Funding Gap Reports

Background on this report

California's Donahoe Higher Education Act specifies three goals for the State's educational system, including its independent colleges and universities (California Education Code Section 66010.2).

(a) Access to education, and the opportunity for educational success, for all qualified Californians. Particular efforts should be made with regard to those who are historically and currently underrepresented in both their graduation rates from secondary institutions and in their attendance at California higher educational institutions

(b) Quality teaching and programs of excellence for their students. This commitment to academic excellence shall provide all students the opportunity to address issues, including ethical issues, that are central to their full development as responsible citizens

(c) Educational equity not only through a diverse and representative student body and faculty but also through educational environments in which each person, regardless of race, gender, age, disability, or economic circumstances, has a reasonable chance to fully develop his or her potential

Unfortunately these goals of access, quality, and equity are now at risk.

A year ago, the Legislature recognized that the budgetary actions it took to resolve the State's \$14.3 billion deficit might have a significant impact on the achievement of these goals. As a result, it adopted Supplemental Report Language to the 1991-92 State Budget (reproduced in Appendix A at the end of this report) directing the University of California, the California State University, the California Community Colleges, and the California Student Aid Commission to prepare "funding gap" reports to document the gap or difference between their State appropriation and the funding needed to

support their unique missions under the State's Master Plan. The Legislature asked each system to submit a preliminary funding gap report to the Governor, the Legislature, and the California Postsecondary Education Commission by December 15, 1991, and a final report by April 1, 1992.

The Legislature also specified that in documenting their funding gap, each system should identify the amount of its underfunding and how that underfunding has affected program quality and student access. In addition, each system was to identify how it will maintain its mission given the current level of State funding and provide recommendations about future State policy for its funding.

In the same Supplemental Report Language, the Legislature directed the Commission to review both the preliminary and final funding gap reports prepared by the systems and then comment on the alternatives each system considered in order to reduce institutional costs, including examining if the system considered changes in faculty workload practices, program scope, or administrative costs in order to reduce total cost. The Legislature charged the Commission to comment on the impact each of those alternatives considered by the systems would have on program quality and student access. Finally, the Legislature asked that the Commission raise any concerns it may have about the effect of the systems' decisions on the integrity of the State's Master Plan for Higher Education.

The Commission has prepared this report in response to the Legislature's request that it comment on the systems' preliminary funding gap reports.

Focus of the Commission's comments in reviewing the systems' reports

Before reviewing the systems' preliminary funding gap reports, the Commission agreed at its January 1992 meeting on the criteria that it would use as the basis of its review of the systems' funding gap reports. The Commission did not impose a template

for the systems to follow as they prepare those reports because the Supplemental Report Language specifically requests that the individual governing boards conduct the studies themselves, and the Commission agrees that they should decide how best to go about responding to this legislative request.

Nonetheless, while the Commission has not placed a premium on conformity among the systems' reports, its review of them will be consistent among the systems. In reviewing the reports, the Commission will focus on the information which the systems have been requested to supply in response to the legislative request. The Commission believes that that information will be particularly useful in assisting the State and its policy makers in making decisions about the future needs and funding for California public higher education

Specifically, the Commission's review of the systems' final funding gap reports will focus on the systems' answers to the following general questions called for by the Supplemental Report Language:

1. The size of the gap that exists between the systems' appropriations and the resources necessary to fully support their missions under the State's Master Plan for Higher Education, including the methodology used for calculating the gap and the rationale behind using that methodology for its calculation.

In this regard, as the systems prepare their final funding gap estimates, the Commission hopes that they can develop an estimate of the resources that would be necessary for them to carry out their Master Plan missions in the year 2000. As they calculate their future funding requirements to comply with the State's Master Plan goals, the Commission hopes to work cooperatively with them in developing a consistent or at least comparable methodology to be used by all systems, such that the results will enable comparisons to be made among the systems. This information will permit the State and its policymakers to have a better understanding of higher education's monetary needs if the State is to continue its commitment to its Master Plan goals.

- 2 The effect on program quality of the funding gap In documenting how program quality has been affected, each system should consider de-

fining how it quantitatively measures the "quality" of its programs and how those measures have changed over time.

- 3 The effect on student access of the funding gap. In documenting how student access has been affected, each system should consider documenting the following factors (1) the number of students who applied for admission and were eligible to enroll but who did not and the principle reasons why they did not; (2) the number of classes which typically would have been offered but which were not; (3) how the number of new and transfer students admitted to the system has changed over time and the reasons for those changes; and (4) how the admission application deadlines have changed and what those changes have meant in terms of number of students who may have been impacted
- 4 The systems' plans to maintain their missions, given their 1991-92 State General Fund appropriation In responding to this portion of the legislative request, it would be useful for each of the systems' reports to clearly articulate what their priorities are and how they will continue to ensure that those priorities are fulfilled given no increase in their State General Fund appropriation
- 5 Alternatives and options that the systems have considered for reducing their costs and what impact those alternatives would have on program quality and student access. With regard to such alternatives and options, the Commission staff is currently actively working with the systems to identify potential long-term options and alternatives which the systems and the Commission should analyze in further detail.
- 6 Recommendations of the systems for their future financing and the extent to which such funding would enable the systems to continue to fulfill their mission under the State's Master Plan
- 7 In addition, although not called for by the Supplemental Report Language, the Commission also believes that it would be useful for each of the systems' reports to document the impact that the system has on the continued vitality, stability, and growth of California's economy.

With regard to the impact that California higher education has on the State's economy, the Com-

mission is currently in the process of updating its 1984 report, *The Wealth of Knowledge*, which describes the impact that the State's higher education institutions have on the economic growth and stability of California's economy. Commission staff hopes to have this report prepared for the Commission's review at its April or June meeting.

Content of this report

The subsequent sections of this report review the systems' preliminary funding gap report submissions, beginning with that of the California Community Colleges and followed by those of the California State University, the University of California, and the California Student Aid Commission. In reviewing each of these four reports, each of the following sections provides a brief description of (1) the system's report, (2) highlights of the report, (3) likely effects of the Governor's proposed 1992-93 State Budget on the principle issues raised in that report, and (4) issues that need to be addressed in each system's final funding gap report in order for the system to be responsive to the Legislature's Supplemental Report Language.

As will be evident from the following sections, great variation exists among the four preliminary reports both in form and content.

California Community Colleges

The community colleges' preliminary report

The preliminary funding gap report submitted by the Chancellor's Office of the California Community Colleges on behalf of the Board of Governors (reproduced as Appendix B) is essentially a prospectus outlining the system's plans for preparing its final funding gap report. The preliminary report outlines the various issues that the Board plans to address in its final report, along with the timeline for preparation and discussion of the issues called for by the Legislature in its Supplemental Report Language. Staff of the Chancellor's Office anticipates presenting the final funding gap report to the Board

for discussion and consideration at its March 12-13 meeting.

Highlights of the report

Despite the nature of the community colleges' preliminary report as a prospectus, it provides some significant information about student access and program quality in California's community colleges, given the system's current State appropriation. It notes that

- 1 In 1981, California's community colleges served one out of every 12 adults in the State; today they serve one out of every 15. To match the proportion of adults enrolled in 1981, the community colleges would have to enroll 330,000 more students than they did in Fall 1991.
2. Over 100,000 adults were turned away from California community colleges in Fall 1991 because of lack of sufficient class offerings. This fact indicates that community colleges were unable to fulfill their role of providing access to all adults capable of profiting from instruction as specified by the State's Master Plan for Higher Education. As such, the colleges have not been able to fulfill their obligation of retraining the increasing number of unemployed persons resulting from the current recession. (The Commission comments on this issue below.)
- 3 Despite turning away students, class size in the community colleges increased to an average of 31 students in Fall 1991, the highest level in the last decade.
- 4 Because of enrollment demand and lack of sufficient resources, the community colleges have not made further progress in increasing the proportion of full-time faculty they employ, as required by Assembly Bill 1725 (1988).
5. If the State were to provide funds sufficient to support the community colleges according to the program-based funding standards that AB 1725 called for and that are presently being reviewed, the community colleges would require an additional \$1.8 billion from the State -- nearly double the State's current appropriation to the system.

The Commission has been directed by other Supplemental Report Language to examine the program-based funding standards which were developed by the community colleges in order to determine if they are appropriate for determining the system's needed funding. As a result, at this time, the \$1.8 billion figure should not be viewed as the community colleges' "funding gap."

Potential impact of the Governor's proposed 1992-93 budget on the community colleges

The community colleges originally requested a 10 percent increase in their 1992-93 State budget appropriation so that they could fully fulfill their Master Plan mission and provide classes to all individuals seeking to enroll. Unlike the State's public universities, as a result of Proposition 98 the community colleges are guaranteed a certain percentage of all State General Fund revenues. The Governor's proposed 1992-93 State budget continues the Proposition 98 guarantee and proposes to provide the community colleges with a 10 percent increase in State funding.

The community colleges have considerable flexibility in spending any additional revenue they may receive from the State, and the Governor's Budget does not specifically require that they use the entire proposed increase in State funds exclusively to offer additional courses. Chancellor David Mertes of the California Community Colleges has requested that, if received, they spend the proposed 10 percent increase on providing additional classes so that they can offer access to all adults interested in enrolling and thereby return to fulfilling their mission under the State's Master Plan for Higher Education.

Issues needing to be addressed in the community colleges' final report

Since the community colleges have not yet prepared a formal report -- but rather only a prospectus -- the system has not yet addressed in a comprehensive manner any of the items requested of the Supplemental Report Language. If the Chancellor's Office prepares the final funding gap report according to the plans outlined in the preliminary report, that final report will be responsive to the Supplemental Report Language. To this end, the Commission's staff is ready to advise the Chancellor's Office staff,

if asked, as they prepare the community colleges' final report for the Board of Governors.

Of particular interest to the Commission in the final report will be the Board of Governors' plans to review both long-term and short-term policy options for planning, financing, and delivering community college educational services. The Board already anticipates exploring six options in its final report: (1) adjusting student fees, (2) increasing private-sector support, (3) making local tax revenues more flexible, (4) improving the use of existing resources, (5) increasing the use of technologies such as distance learning, and (6) developing new management strategies. In this regard, the Board has created a Commission on Innovation and charged it to examine other long-term alternatives to the way the community colleges do business, including examining how they use their facilities, deliver instruction, and are managed.

Finally, the Commission will be interested in knowing more about the 100,000 students who, according to the Chancellor's Office, were turned away from the community colleges in Fall 1991 because of lack of sufficient course offerings. For example, were these 100,000 students simply not admitted to one particular desired class, or do they represent the number of full-time-equivalent students who were unable to enroll in courses? In general, the Commission would like a more comprehensive description of what is meant by the statement that 100,000 students were turned away in Fall 1991.

The California State University

The State University's preliminary report

The California State University devoted extensive time and energy to its preliminary funding gap report (reproduced as Appendix C) and the State University's Office of the Chancellor deserves commendation for it. This time and energy are well reflected in the content of the report, which provides substantial information on the impact that underfunding has had on program quality in and student access to the State University.

The report begins by explaining how the State University's level of funding per student has changed over time in both real and constant dollars. It con-

tinues by outlining the actions that the State University was forced to implement in 1991-92 as a result of its unfunded \$170 million deficit -- its 1991-92 "funding gap." It then discusses the impact that those actions have had on the quality of the State University's programs. It analyzes the factors that have, until recently, influenced enrollment demand at the State University. Finally, it describes how the State University's funding gap has affected student access to the system

The report coins the phrase *access gap* -- the difference between the State University's actual enrollment and the expected level projected from historical demographic data -- and describes how this "access gap" has increased, due in part to the system's "funding gap." The report notes that while the State University is committed to the tenets of the State's Master Plan for Higher Education, unless the State's appropriation to the State University is increased, it will no longer be able to accept all qualified students. As a result, California's historical commitment to providing access to higher education is in serious jeopardy, which could be detrimental to California's future economic well being

Highlights of the report

Among the most interesting and noteworthy material in the State University's preliminary report is the following information:

1. After adjusting for inflation, the State General Fund appropriation for each full-time-equivalent student at the State University decreased by 9.5 percent between 1981-82 and 1991-92, while from 1987-88 to 1991-92 the inflation-adjusted appropriation per full-time-equivalent student declined by 15.9 percent. (The Commission comments on this issue below.)
2. For the State University to provide the same level of services in 1991-92 as it provided in 1990-91, it would have required an additional \$170 million -- an estimate of its funding gap.
3. Approximately 88 percent of the State University's budget is composed of personnel costs for faculty, staff, and administration. With such a large percentage of its budget composed of personnel costs, the system cannot reduce expenditures without directly impacting its workforce.
4. In 1991-92, the State University reduced its non-faculty workforce by 868 positions, which directly affected the level and quality of services available to students, faculty, and the public, including reductions in the number of hours that libraries, computer centers, health centers, and advising, counseling, financial aid, and tutoring offices are open.
5. In addition, as a result of 1991-92 budgetary reductions, the State University left 400 faculty and department chair positions unfilled and laid off more than 1,000 faculty members, not including part-time faculty whose contracts were not renewed.
6. These reductions in academic personnel have meant that approximately 5,000 classes which typically would have been offered in Fall 1991 were not offered. This lack of available courses has delayed the graduation of some students who could not enroll in courses needed for graduation.
7. From Fall 1980 to Fall 1990, average class size for lecture courses at the State University increased 26.5 percent, from 34 to 43 students.
8. Approximately 7,000 fewer students (both headcount and full-time-equivalent) enrolled in the State University in Fall 1991 than in Fall 1990. The State University attributes this decline to the decrease in State support as well as the increase in student fee levels.
9. The State University's actual 1991-92 full-time-equivalent enrollment is approximately 10,000 lower than that projected by historical demographic enrollment patterns -- an estimate of the system's "access gap." Further, its anticipated 1992-93 full-time-equivalent enrollment of 272,650 is approximately 14,000 full-time-equivalent students below what demographic enrollment patterns would have projected.
10. Despite these enrollment reductions, the State University has no evidence to suggest that qualified students were denied admission to the system. (See Commission comment on this issue below.)
11. In addition to attempting to protect its instructional programs from budgetary reductions, the State University also protected its educational

equity programs from all such reductions in 1991-92.

The State University's preliminary report indicates that in the future the system will assess its resource base prior to determining the number of students it will enroll. In addition, it notes that if the State University does not receive at least \$6,536 per full-time-equivalent student in 1992-93, it will either increase student fees substantially or decrease student enrollments even further, since the system will not allow the quality of its programs to decline any further.

Potential impact of the Governor's proposed 1992-93 budget on the State University

The Governor's Budget provides a 1.4 percent or \$23 million General Fund increase to the State University. The State University had requested a 9.1 percent or \$150 million General Fund increase. Of the \$23 million increase, it proposes \$17 million for 2,600 additional full-time-equivalent students, \$1 million for increased dental costs for retired annuitants, and \$5 million from General Obligation Bonds for asbestos abatement. The Governor's Budget would leave the system with a deficit of approximately \$127 million, with no funds for increasing the number of available classes, providing general salary increases, paying merit salary adjustments, or paying for higher benefit costs. Hence, the State University's budget would remain essentially unchanged from its current level, although the Governor's Budget would provide the Trustees with the flexibility to increase student fees by as much as 40 percent, with the additional income generated from the increase to be expended by the Trustees as they deem appropriate.

The State University's Trustees met this past January 14 to discuss the Governor's proposed budget and its impact on the system. To deal with the \$127 million funding gap, they considered three options (1) reducing expenditures, (2) reducing enrollment, or (3) increasing student fees. Since the Trustees were opposed to allowing the quality of the State University's programs to decline any further, they eliminated the first of the three options, leaving only the options of reducing enrollment or increasing student fees. In the interest of protecting access to higher education, they opted to increase student

fees and adopted a 40 percent increase in student fees for the 1992-93 academic year.

That 40 percent increase amounts to \$372 per year per full-time student and brings total systemwide charges to \$1,308 per year. The increase will generate approximately \$117 million in new gross revenue, but some \$27 million of the \$117 million will be used to provide State University Grants to offset the fee increase for needy students -- thus yielding only about \$90 million in net revenue to assist in offsetting the \$127 million budget gap.

As this planned fee increase is discussed in legislative hearings, the specifics of the system's \$127 million funding gap are likely to be scrutinized more carefully. For example, the California State University Student Association is developing its own proposal for how the State University should deal with its funding gap.

Issues needing to be addressed in the State University's final report

While the State University's preliminary funding gap report is comprehensive, it acknowledges that it does not address two portions of the Legislature's request in the Supplemental Report Language -- the system's plans and priorities for maintaining its mission given the current level of State resources, and its recommendations about future State financing for the system. It plans to address these issues in its final report.

The State University has requested an extension in submitting its final report so that it can provide for adequate consultation and public comment on these issues. The Trustees plan to discuss these issues at their May 19-20 meeting and take action on them at their July meeting, after which the Chancellor will transmit the final funding gap report to the Governor, Legislature, and the Commission.

In addition to the criteria outlined earlier in this report that the Commission will use in reviewing the State University's final report, the Commission suggests that the State University address the following additional items in that report:

1. The State University's preliminary report notes that the system has no evidence to suggest that qualified students have been denied admission to the system. While that may be the case, the

Commission also understands that many of the State University campuses either closed the application deadline early or in some other way placed a limit on the number of applications to be accepted. The Commission would like to have additional information about the State University's application deadlines and procedures and how they have changed over time as well as some estimate of the numbers of students who may have been impacted as a result of any changes in those application deadlines and procedures. Clearly, while qualified students who applied by the earlier application deadlines may have been admitted to the system, those students who were equally qualified for admission but who did not apply until after the earlier application deadlines or who did not apply at all after learning of missing the earlier deadline are being denied access to the system

- 2 The Commission also understands that the State University is completing a survey of all students who were previously enrolled in the system in Spring 1991 or who were admitted to the system for the Fall 1991 term but who did not enroll in Fall 1991, in order to determine their reasons for not enrolling. The Commission believes that this survey will shed needed light on students' enrollment decisions. For example, the Commission understands that the lack of available classes at the State University received a great deal of publicity, and that publicity itself may have resulted in students opting not to enroll. This survey may indicate if this was one of the factors involved in students' enrollment decisions. The Commission looks forward to receiving the results of that survey as soon as they are available.
- 3 The State University's preliminary funding gap report notes that after adjusting for inflation, its State General Fund appropriation for each full-time-equivalent student decreased by 9.5 percent between 1981-82 and 1991-92, and by 15.9 percent from 1987-88 to 1991-92. In calculating the State's appropriation per full-time-equivalent student, the State University used budgeted enrollment numbers as opposed to actual enrollment numbers. In 1991-92, the State University's budgeted full-time-equivalent enrollment was 280,220, while its actual full-time-

equivalent enrollment was approximately 10,000 lower. Using the budgeted 280,200 figure understates the State's actual appropriation per enrolled full-time-equivalent student. As a result, the Commission suggests that the State University use actual figures for this calculation since they are more reflective of reality than budgeted figures, particularly for 1991-92. Despite the use of actual rather than budgeted figures, the Commission believes the trend will not change, in that after adjusting for inflation, the State's support for the State University per full-time-equivalent student has declined over time.

University of California

The University's preliminary report

Rather than prepare a special report to address the request of the Legislature in its Supplemental Report Language, the University of California submitted as its preliminary funding gap report two items that were prepared for other purposes but that respond in part to the Legislature's directive: (1) The University's *1992-93 Budget for Current Operations*, which reviews the trends in University funding as well as the extent to which specific program areas are underfunded, and (2) President Gardner's comments to the Regents at their November meeting regarding the impact on the University resulting from inadequate funding.

The University's *1992-93 Budget for Current Operations* is so long that the Commission has not reproduced it in the appendices to this report. However, it is available for review at the Commission's offices. Appendix D later in this document reproduces the University's letter of transmittal and President Gardner's comments to the Regents. He begins by describing the increasing bleak fiscal situation that the State faces. He notes that the State's limited fiscal resources, coupled with the fact that funding for the State's public universities is not constitutionally protected as are the majority of the State's other budget categories, means that the University is particularly vulnerable to decreases in its State appropriation. He then summarizes the University's proposed 1992-93 budget for current operations and capital outlay.

President Gardner comments that maintenance of the University's quality is its highest priority and indicates that, as a result, the University does not plan to repeat many of the actions which are outlined below that it had been forced to implement during the last several years. He notes that if State funding is inadequate to maintain quality, the University has basically two options: increasing student fees or reducing enrollments. He proposes that if increases in student fees, combined with State appropriations, continue to be inadequate to provide the University with the resources necessary to maintain its quality, the only option remaining will be to reduce student enrollment -- a difficult decision to make, but one which may be necessary to protect the University's quality and international reputation.

President Gardner concludes by referring to the Department of Finance's recent observation that "no matter how strong its economic recovery, the State will not be able to fund existing programs at current levels within projected tax revenues." In light of this conclusion, he notes that both the State and the University will be forced to deal with many difficult and complex public policy issues, and he encourages all individuals in the higher education community to help educate policy makers about the significant impact that California higher education has on the future fiscal health and economic competitiveness of the State

Highlights of the report

In his statements to the Regents, President Gardner notes that:

- 1 In light of insufficient revenue in 1990-91, the University was forced to take a number of actions to protect the quality of its instructional teaching programs from any reduction. Those actions included the following:
 - Research, public service, and administration budgets were reduced by 5 percent;
 - Faculty and staff received only a half year of a general salary increase;
 - Staff received only a half year of merit salary increases, although faculty received a full-year increase; and
 - Resident student fees were increased by 10 percent or \$148 per year, while nonresident tuition was increased by 10.6 percent or \$617 per year.
- 2 In 1991-92, the University faced a budgetary shortfall of approximately \$312 million -- about 15 percent of its State-funded operating budget.
- 3 To deal with that shortfall and protect the quality of its instructional programs, the University implemented several actions in 1991-92:
 - University enrollments were scheduled to be reduced by 5,500 students (the Commission comments on this issue below);
 - A second 5 percent reduction was made in research, public service, and administration budgets,
 - Faculty and staff received no salary increases -- neither a general salary increase nor a merit salary increase,
 - The University's workforce was permanently reduced by 1,700 employees, primarily through the Voluntary Early Retirement Incentive Program and attrition;
 - Instructional equipment and deferred maintenance expenditures were reduced or deferred; and
 - Resident student fees were increased again, this time by 40 percent or \$650 per year, while nonresident tuition was increased again by 20 percent or \$1,283 per year.
- 4 The University's highest priority is and will continue to be the preservation of its quality and excellence.
- 5 The University's State-funded budget now represents about 30 percent of its total budget, compared to 40 percent in 1980
6. One of the University's most critical needs in 1992-93 is to provide faculty with a salary increase sufficient to maintain its competitive position in recruiting and retaining quality faculty members
- 7 Any increase in the University's student-faculty ratio would strike at the heart of the quality of the University's instructional programs

- 8 The University remains committed to providing access to the top 12.5 percent of California high school graduates, yet if resources are insufficient to ensure that the quality of the University's programs are maintained, access will have to be limited and with it the Master Plan's promise of access abandoned, at least temporarily

Potential impact of the Governor's proposed 1992-93 budget on the University of California

The University of California requested a 9.8 percent or \$212 million increase in its 1992-93 State General Fund appropriation. The Governor's Budget would provide the University with a 1.5 percent or \$31 million increase in State General Funds. The Governor's Budget also proposes a resident student fee increase of 24 percent or \$550 per year. After providing for financial aid for all needy students in the form of a grant and/or loan, the fee increase would provide the University with \$60 million in additional revenue.

In developing the University's budget, the Governor, in conjunction with the University, sought three specific goals:

- 1 To maintain the University's capability and international reputation;
2. To assure all eligible students have access to the University; and
- 3 To charge student fees no higher than the average paid by students at the nation's other comparable public universities.

The Governor's proposed budget would achieve each of those goals. Its increase in State support combined with the student fee increase would provide the University with \$91 million in additional revenue. This increased revenue would enable the University to fund:

- 1 Faculty merit increases that were awarded in 1991-92 but were not funded in the 1991-92 budget nor paid to faculty;
- 2 1992-93 merit salary increases for faculty and staff;
- 3 Increased health benefit and Social Security costs for annuitants, and continued funding for 1991-92 health benefit cost increases for current employees;

4. Price increases;
- 5 Some instructional equipment replacement;
6. Payments on revenue bonds,
7. Maintenance of new space planned to come on line during 1992-93; and
8. 2,700 additional students -- 1,500 at the undergraduate level and 1,200 at the graduate level.

Although the Governor's Budget would enable the University to fund these items, it would not allow for the funding of others, including no general salary increase for either faculty or staff, and no increase in compensation for the University's most senior executives, which would mean that these executives would not receive either a general or a merit salary increase for the second consecutive year. Since State funds were sufficient to support only a half-year of merit salary increases for eligible University staff, the University will provide funding for a full year of merit increases by reducing State support for the Office of the President by 25 percent -- a reduction in addition to the 10 percent reduction that office had taken the prior two years.

Taken in total, the Governor's Budget would enable the University to continue to provide access to all eligible students, thus maintaining its commitment to the Master Plan. In addition, it protects the University's teaching, research, and public service activities from further budgetary reductions. Finally, while it includes increases in student fees, approximately \$20 million would be earmarked to provide additional financial aid to all needy students to help offset the \$550 fee increase.

Issues needing to be addressed in the University's final report

Since the University did not prepare its submission expressly for responding to the Supplemental Report Language, a number of issues raised by that request remain unanswered. As a result, the Commission suggests that in preparing its final funding gap report, the University review the criteria outlined earlier in this report that the Commission plans to use in reviewing the system's final report and then provide information in its final report that is responsive to those criteria.

In addition, the Commission suggests that the University's final report address the following specific items.

1. In adopting its 1991-92 budget, the University indicated that it would reduce enrollments by 5,500 students. From Fall 1990 to Fall 1991, the University's enrollment declined by only 300 students. Does the University plan the remainder of the planned decrease for 1992-93? Are the 5,500 students to be graduate students or undergraduates? Furthermore, the Governor's Budget for 1992-93 would provide funding for 2,700 new students. How does this number relate to the University's planned enrollment decline? In other words, the Commission is interested in the University's enrollment plans.
2. The Commission is also interested in learning more about undergraduate applicants who are admitted to the University but who do not choose to attend -- specifically, the number of these students, how their numbers have changed over time, their reasons for not enrolling, and where they enroll if they attend other institutions.
3. The Commission also understands that surveys are underway at two University campuses to obtain additional information about students who were previously enrolled in those institutions or who were admitted but did not enroll to determine their reasons for not enrolling. The Commission will be interested in learning the results of those surveys.

California Student Aid Commission

The Student Aid Commission's preliminary report

The California Student Aid Commission prepared a comprehensive preliminary funding gap report, which is reproduced as Appendix E at the end of this document. That report begins with a description of the critical role that State financial aid plays in providing both access to and choice among California's colleges and universities, particularly for students historically underrepresented in California higher education. It then notes the anticipated need to expand these programs in order to continue to provide individuals from these backgrounds -- a group

which is projected to increase significantly over the next 15 years -- with the same opportunities as provided previous generations. The report reviews the State's Master Plan's goals and policies relating to State financial aid and discusses the amount of additional grants and funding that would be required for the State's Cal Grant programs to meet the goals specified in the Master Plan. It concludes with the sobering message that if the State is unable to provide the necessary funding for the Cal Grant programs, California's historic commitment to educational opportunity for all citizens will be threatened.

The Student Aid Commission notes that its final report will respond more fully to the Legislature's request in the Supplemental Report Language and will include a discussion of the Commission's plans and priorities for maintaining its mission, given the State's current funding problems

Highlights of the report

The Student Aid Commission's report provides a significant amount of information about the consequences of inadequate funding for the Cal Grant programs, including the following information:

1. Three primary factors have contributed to the increased demand for State student aid: (1) increases in the number of students attending college; (2) reductions in federal grant aid; and (3) rising college costs
2. In 1989-90, 45 percent of the State's public high school graduates were from underrepresented ethnic groups, by 2005, 57.5 percent of public high school graduates will be from such backgrounds
3. In 1991-92, the Student Aid Commission awarded 31,220 new Cal Grant awards, which provided awards to only 12 percent of California high school graduates. In order for the Student Aid Commission to provide Cal Grant awards to 12 percent of high school graduates in 2000-01, it will need funds to provide at least 10,000 more awards than presently available.
4. While the Student Aid Commission is presently able to provide Cal Grant awards to 12 percent of California high school graduates, the State's Master Plan calls for it to be able to provide

awards to 25 percent of high school graduates. To reach that goal by 1997-98 the number of new awards would need to be doubled, while to meet it in 2004-2005, the current number would need to be tripled. A rough estimate of the cost of meeting this goal, assuming no increase in the dollar amount of each grant, is to double the current Cal Grant funding level of \$180 million by 1997-98 and increase it by about \$360 million by 2004-05.

- 5 During the 1980s, enrollment at the State's independent institutions declined, while those at the State's public universities rose. Similarly, the percentage of Cal Grant recipients decreased at independent institutions during this period and increased significantly at the State's public universities. Among the factors that can explain this apparent shift in enrollment from the independent institutions to the public universities is the decreasing proportion of costs that Cal Grant awards have covered at the State's independent institutions. State policy calls for a maximum Cal Grant award of about \$7,200 for students attending those institutions, but the current maximum award for their students is only \$5,250. The lack of funding of the maximum Cal Grant award reduces "choice" among educational institutions -- one of the Master Plan's financial aid policy goals -- for many low- and middle-income students and is one of the reasons for these enrollment trends.
6. From 1987-88 to 1989-90 -- a two-year period -- the number of students applying for Cal Grants increased by 40 percent. Of the 171,000 applicants for Cal Grant awards in 1989-90, about 93,000 were eligible for an award, although only 31,220 awards were available -- leaving some 62,000 eligible students without one. Stated differently, only one in three students eligible for a Cal Grant award received one, while two-thirds of all eligible students have been denied awards because of insufficient funding.
- 7 More than 200,000 students applied for a Cal Grant award in 1991-92. However, last year the Commission's State appropriation for Cal Grants was decreased by \$6.8 million due to the State's budget deficit. This reduction means that the Commission will likely grant about 2,500 to 3,000 fewer awards -- thereby further compounding the number of students who are

eligible for a Cal Grant award but not receiving one

8. In light of rising student costs and limited availability of Cal Grants, student borrowing has increased significantly. From 1988-89 to 1990-91, borrowing increased by nearly \$36 million among State University students, by about \$55 million among University of California students, and by \$65 million among independent institution students. Overall, State University students borrowed 33 percent more than they did two years earlier, University of California students borrowed 52 percent more; and independent institution students borrowed about 20 percent more.

Potential impact of the Governor's proposed 1992-93 budget on the Cal Grant programs

The Governor's proposed 1992-93 State budget provides no increase in the number of Cal Grant awards nor any increase in the amount of each award. What this means in simple terms is that the State is moving even further away from meeting its Master Plan goals as they relate to student financial aid.

Of particular note is an issue that will likely be debated at length during legislative hearings: the fact that no new funds are budgeted to cover the increased fees for Cal Grant recipients attending the University of California or the California State University. One of the State's Master Plan financial aid policy goals calls for the Cal Grant award for students at the State's public universities to fully cover their full fees. Since that goal was enacted into State law, it has always been met. Its future, however, is in serious question.

Issues needing to be addressed in the final report of the Student Aid Commission

In addition to ensuring that the items identified in the first section of this report are contained in the Student Aid Commission's final funding gap report, the California Postsecondary Education Commission suggests that the Student Aid Commission address the following issues in that report:

- 1 The Student Aid Commission has been asked in Supplemental Report Language to document

"how students meet the costs of their education when grant funds are inadequate." While the Student Aid Commission has provided information on growth in student loan borrowing to meet the higher costs of their education, it has offered little information on other forms of assistance that students may rely upon in meeting those costs. To the extent possible, the Student Aid Commission should provide information on other forms of financial aid resources on which students rely in meeting college expenses, including, but not limited to, federal, State, and institution-based aid.

- 2 The Supplemental Report Language also calls on the Student Aid Commission to attempt to document the impact that underfunding of the Cal Grant program has had on student access to higher education. While the Student Aid Commission has provided significant information on the number of students who are eligible for a Cal Grant award but who do not receive one due to lack of funding, it has not yet provided information about what happens to these eligible Cal Grant students. Do they still enroll in higher education? If so, in what system do they enroll, and how do they finance their college attendance without the Cal Grant award?
- 3 In addition, the Student Aid Commission's report notes that access to California's independent colleges and universities for financially needy low- and middle-income students has diminished as a result of the State's failure to fund the maximum Cal Grant award at the level called for in State policy. The Student Aid Commission should try to document how many students are being denied access to California's independent institutions as a result of this underfunding of the Cal Grant maximum level of award and the number of students who might choose to enroll in these institutions if the Cal Grant awards were funded at the level called for in State policy.
4. The Postsecondary Education Commission is most interested in learning the Student Aid Commission's plans and priorities for maintaining its mission, given the State's current State funding problems as well as its recommendations about future financing of the Cal Grant programs.

The Postsecondary Education Commission recognizes that the swift completion and comprehensive analysis of the 1992 Student Expenses and Resources Survey by the Student Aid Commission is extremely urgent in order to permit State officials to make informed decisions about options facing higher education. Thus the Postsecondary Education Commission acknowledges that the Student Aid Commission may not be able to respond fully to all four of these issues because of the lack of needed data and its own limited resources.

Conclusion

As the preceding sections of this report indicate, because of inadequate resources public higher education in California has been forced during recent years to depart from the Master Plan's three goals of access to education, quality teaching in programs of excellence, and educational equity.

- Average class size at both the California Community Colleges and the California State University increased significantly between Fall 1990 and Fall 1991.
- The State University offered 5,000 fewer classes in Fall 1991 than in Fall 1990.
- Enrollment at the State University declined by 7,000 students from 1990 to 1991, despite projections that enrollments would increase.
- State University students have found it increasingly difficult if not impossible to enroll in classes needed for graduation.
- Student fees at the University and State University increased significantly in 1991-92 -- by 40 percent or \$650 at the University and by 20 percent or \$156 at the State University. In addition, student fees are proposed to further increase in 1992-93 -- by 24 percent or \$550 at the University and by 40 percent or \$372 at the State University -- bringing the total increase in fees over the past two years to \$1,200 at the University and \$528 at the State University.
- Only one in three students qualified for a Cal Grant ever receives an award.

Thus, while the institutional systems and the Student Aid Commission remain committed to Califor-

nia's Master Plan for Higher Education, the present level of State funding is insufficient for them to keep that commitment, given their current missions and operating policies

The Legislature has asked the systems and the Student Aid Commission in their final funding gap reports to develop long-term options for dealing with this inconsistency between the goals of the Master Plan and the resources available to fulfill them. As

they develop those options and address the issues that the Postsecondary Education Commission has raised in this report, the Commission looks forward to working cooperatively with them so that California can preserve its historic commitment to offering quality higher education to as many citizens as possible. The quality of California's culture and economy depends in large part on the ability of public higher education in the State to accomplish that challenging task.

Appendix A Supplemental Budget Report Language

California Postsecondary Education Commission

The Legislature intends that the California Postsecondary Education Commission (CPEC) review and comment upon both the preliminary and final segmental reviews of state financing of the Master Plan for higher education provided for in items 6440-001-001; 6610-001-001; 6870-001-001, and 7980-001-001 of the Supplemental Report to the 1991 Budget Act. In reviewing and commenting on the individual governing board presentations, the Commission shall comment on the alternatives that each board considered to affect institutional costs and the effect of those alternatives on faculty workload policies, program scope, and administrative costs. It shall also comment on the impact of these alternatives on program quality and student access to the segment. The Commission is further requested to compare the individual governing boards' plans and priorities for maintaining their Master Plan functions under the current state budget constraints, and to raise any concerns it may have about the effect of different segmental postures on the integrity of the Master Plan. Such review shall be submitted to the Governor and Legislature by May 1, 1992.

University of California

The Legislature requests the University of California Regents to document the extent of the current gap, if any, between state appropriations for the University of California and funding that is needed to fully support the university's current mission under the state Master Plan for higher education. The review shall include where possible an identification of the consequences of the funding gap on program quality and student access. This review should include the Regents' plans and priorities for maintaining their mission under current state funding scenario, accompanied by recommendations to the Governor and the Legislature on future state policies for financing the University of California. A preliminary review should be forwarded to the

Governor, Legislature, and CPEC by December 15, 1991. The segment's final report shall be transmitted to the Governor, Legislature, and CPEC by April 1, 1992. CPEC shall comment on the segment's final report, and transmit its comments to the Governor and Legislature by May 1, 1992. The final segmental report should be managed so as to invite public comment on the Regents' recommendations.

The California State University

The Legislature requests the California State University Board of Trustees to document the extent of the current gap, if any, between state appropriations for the CSU and funding that is needed to fully support the state university's current mission under the state Master Plan for higher education. The review shall include where possible an identification of the consequences of the funding gap on program quality and student access. This review should include the Trustees' plans and priorities for maintaining their mission under current state funding scenario, accompanied by recommendations to the Governor and the Legislature on future state policies for financing the CSU. A preliminary review should be forwarded to the Governor, Legislature, and CPEC by December 15, 1991. The segment's final report shall be transmitted to the Governor, Legislature, and CPEC by April 1, 1992. CPEC shall comment on the segment's final report, and transmit its comments to the Governor and Legislature by May 1, 1992. The final segmental report should be managed so as to invite public comment on the Trustees' recommendations.

California Community Colleges

The Legislature requests the California Community Colleges Board of Governors to document the extent of the current gap, if any, between state appropriations for the CCC and funding that is needed to fully support the community colleges' current mission under the state Master Plan for higher educa-

tion The review shall include where possible an identification of the consequences of the funding gap on program quality and student access. This review should include the system's plans and priorities for maintaining their mission under current state funding scenario, accompanied by recommendations to the Governor and the Legislature on future state policies for financing the CCC A preliminary review should be forwarded to the Governor, Legislature, and CPEC by December 15, 1991 The segment's final report shall be transmitted to the Governor, Legislature, and CPEC by April 1, 1992 CPEC shall comment on the segment's final report, and transmit its comments to the Governor and Legislature by May 1, 1992. The final segmental report should be managed so as to invite public comment on the board's recommendations.

Student Aid Commission

The Legislature requests the Student Aid Commission (SAC) to document the extent of the gap, if any,

between state appropriations for the commission's Cal Grant programs and funding that is needed to fully support the grant programs' current mission under the state Master Plan for higher education. The review shall include where possible an identification of the consequences of the funding gap on student access and on how students meet the costs of their education when grant funds are inadequate This review should include the commission's plans and priorities for maintaining their mission under current state funding scenario, accompanied by recommendations to the Governor and the Legislature on future state policies for financing the Cal Grant programs. A preliminary review should be forwarded to the Governor, Legislature, and CPEC by December 15, 1991. The SAC's final report shall be transmitted to the Governor, Legislature, and CPEC by April 1, 1992 CPEC shall comment on the segment's final report, and transmit its comments to the Governor and Legislature by May 1, 1992. The final segmental report should be managed so as to invite public comment on the SAC's recommendations.

***Appendix B* California Community Colleges Report**

FUNDING GAP STUDY

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First Reading, Action Pending, March Board Meeting

Background

Supplemental language in the *1991 Budget Act* requires the three segments of public higher education to study and report on the impact of what is referred to as the "funding gap," i.e., the gap between State appropriations and what is needed to fully support each segment's mission under the State's *Master Plan for Higher Education*.

The charge for the Community Colleges Board of Governors in this supplemental language (see text in Appendix A) is to:

- Identify the gap (if any) between State appropriations and funding needed to fully support the Community College mission under the State's *Master Plan*
- Measure the consequences of this funding gap on program quality and access.
- Report on how the Community Colleges plan to maintain their mission, given the "current State funding scenario "
- Recommend future State policies for financing the Community Colleges.

A final report on the funding gap from the Board is due to the Governor, the Legislature, and the California Postsecondary Education Commission (CPEC) by April 1, 1992. CPEC is then to review the report and comment by May 1, 1992. Work on the report should be coordinated closely with CPEC and with the Board of Governors Commission on Innovation

Analysis

Timing of the funding gap report requires that the Board of Governors consider staff work and recommendations at its March 12-13, 1992 meeting. Both staff work and consultation on this study have already started. A study prospectus prepared by Chancellor's Office staff addresses each of the above four areas of question (Appendix B)

While difficult, the study's questions are relatively straightforward. The Chancellor's Office has several analytical tools – among them forecasting models for revenues, expenditures, and enrollments – which can be of help in this work. Available data will be aggregate, but should enable the Board to identify the amount and implications of the “funding gap.”

The standard against which the funding gap will be defined is the level of support required for:

- Program-Based Funding and proposals in the Board's *Long-Range Capital Outlay Growth Plan*

in light of the

- Three-part Community College mission of transfer, occupational, and basic skills/ESL education – as articulated in the Board's *Basic Agenda* for the 1990s.

Several aggregate measures provide a preliminary indication of the consequences of the funding gap:

- Access to the Community Colleges has declined – from serving one in every twelve adults in 1981 to one in every 15 today. To match the level of access recorded ten-years ago, the Community Colleges would have had to enroll 330,000 more students than they did in Fall 1991.
- Access was especially impacted in Fall 1991 when over 100,000 adults were turned away from the Colleges because classes were not available.
- Even after turning away these students, College class size rose to an average of 31 students in 1991, the highest level in at least a decade.
- Continuing enrollment demand and inadequate funding prevent the Colleges from improving their use of full-time faculty as called for in AB 1725.
- Community Colleges are funded to about 55 percent of Program-Based Funding standards, full funding would require another \$1.8 billion.

Community Colleges have not been able to meet their obligations for retraining the unemployed during this recession and have found it quite difficult to absorb the individuals who have been turned away from the University of California and the California State University because of their fee increases and course cuts.

The ability of Community Colleges to meet their mission as defined by the State's *Master Plan for Higher Education* is vital to the economic and social future of California. The Community Colleges have a significant role to play in helping close the potential gap between the State's new jobs and the lack of skilled labor available to fill them. Community Colleges not only provide individuals with transfer and vocational education for most of the new jobs, but they also enroll more individuals from the groups (women, minority, immigrant, etc.) that will comprise most of the new workers than do other postsecondary institutions

While studying the funding gap, the Board of Governors should address both short- and long-term policy options for planning, financing, and delivering Community College education. Among these options are adjustments to student fees, increased private-sector support, and more flexible local tax revenues, as well as improved use of existing resources, more use of technologies like distance learning, and new management strategies.

The Board's Commission on Innovation will be addressing most of the pertinent long-term alternatives as it considers how Community Colleges use their facilities, deliver instruction, and are managed. CPEC is considering policy recommendations that would (a) maintain low Community College fees, (b) call for enrollment reductions and changes to College operations as a two-part approach to short-term problems, and (c) propose restructuring how the Community Colleges "go about fulfilling their missions" as a long-term option.

Staff Presentation

*Joe Newmyer, Vice Chancellor
Fiscal Policy*

*Chuck McIntyre, Director
Research and Analysis*

APPENDIX A

Supplemental Budget Language California Community Colleges (Item # 6870-001-001)

The Legislature requests the California Community College Board of Governors to document the extent of the current gap, if any, between State appropriations for the California Community Colleges and funding that is needed to fully support the Community Colleges' current mission under the State Master Plan for higher education. The review shall include where possible an identification of the consequences of the finding gap on program quality and student access. This review should include the Board's plans and priorities for maintaining the mission of the California Community Colleges under the current State funding scenario, accompanied by recommendations to the Governor and the Legislature on future state policies for financing the California Community Colleges. A preliminary review should be forwarded to the Governor, Legislature, and the California Postsecondary Education Commission by December 15, 1991. The segment's final report shall be transmitted to the Governor, Legislature, and the California Postsecondary Education Commission by April 1, 1992. The California Postsecondary Education Commission shall comment on the segment's final report and transmit its comments to the Governor and Legislature by May 1, 1992. The final segmental report should be managed so as to invite public comment on the Board's recommendations.

APPENDIX B

Funding Gap Study

Required by Supplemental 1991 Budget Act Language

Draft of Study Prospectus

Background

The charge for the Community Colleges Board of Governors in this supplemental language (see text in Appendix A) is to:

- Identify the gap (if any) between State appropriations and funding needed to fully support the community college mission under the State's *Master Plan*.
- Measure the consequences of this funding gap on program quality and access.
- Report on how the community colleges plan to maintain their mission, given the "current State funding scenario."
- Recommend future State policies for financing the Community Colleges.

The proposed study schedule is as follows:

<i>November 1991</i>	Review charge. Develop study outline and strategy. Review background literature. Begin survey of colleges in comparable states. Specify the necessary data.
<i>December 1991</i>	Begin data collection. Update forecasting models for this study. Evaluate the "funding gap." Begin the Consultation process. Send preliminary report (12/15/91).
<i>January 1992</i>	Complete survey of colleges in other states. Specify alternative State funding scenarios. Begin running forecasting models. Continue the Consultation process. Report information to Board of Governors.

February 1992	Develop and assess policy options. Complete the Consultation process. Select policy proposals and priorities.
March 1992	Take report to Board for action. Complete report with proposals and transmit.

The Funding Gap

In order to identify the funding "gap," staff will compare current funding (from all sources and for both operating and capital budgets) to the level of funding implied by at least three or four different "standards" which have relevance:

1. The level of funding required to buy the resources justified by the formulas in Program-Based Funding (PBF) and proposals in the Board's *Long-Range Capital Outlay Growth Plan*.
2. Taking the three-part mission of transfer, occupational, and basic skills/ESL education and estimating what is required for Community Colleges to accomplish desired outcomes in each of these three functions, consistent with the Board's *Basic Agenda*.
3. Funding provided for Community Colleges in other comparable (large, industrial, and demographically-diverse) states.
4. Funding provided for the California Community Colleges in a year, like 1977 or 1982, which could be considered as more "normal" than recent years.

Standards 1 and 2 will be used to define the funding gap, while Standards 3 and 4 will provide background.

Consequences of the Funding Gap

The legislative charge requires the Board to identify how the funding gap has impacted program quality and access. In each case, staff will need to estimate current practices – under the gap – with what could have been achieved had there not been a gap. This requires that staff measure levels of program and access for the above "standards."

For program quality, staff will use several proxy measures like:

- faculty load;
- class sizes;
- student: faculty ratios;

- composition of teaching staff;
- support service staffing;
- real (price-adjusted) expenditures on: instruction, student services, maintenance and operation of plant, and overhead;

and examine how each has changed over time (probably the past decade, although pre-Proposition 13 funding could also be considered as relevant) and how each would be different in the absence of a funding gap.

Staff also may be able to infer the impact of the funding gap on some outcome measures such as retention, transfer, and job placement, and possibly enter into discussion of the impact on the colleges' (in)ability to support the State's economic development.

Access will be measured by the participation rate of:

- enrollment in Community Colleges divided by adult population; for
 - ▷ males and females;
 - ▷ different age cohorts;
 - ▷ Asians, African-Americans, Hispanics, Native Americans, Filipinos, Caucasian; and
 - ▷ others like the disadvantaged, immigrants, etc.

Over the past decade, assessing how and why the participation rates have changed and how they might be different without the funding gap. In addition, staff can examine the degree of readiness, provision of student services, and some measures of performance among these groups in 1989-90 in order to further clarify the impact of the funding gap. Analysis and forecasts prepared for the *Long-Range Capital Outlay Growth Plan* also may be of use here.

Maintaining the Mission Under Current Funding Scenarios

State funding for both the near- and long-term is quite uncertain. To look at alternative ways of maintaining the Community Colleges' mission, Chancellor's Office staff will specify one or more likely funding and enrollment demand scenarios by utilizing the latest forecasts of the Department of Finance and the Commission on State Finance (COSF), together with several forecasting models which staff have designed to examine future trends in Community College revenues and expenditures, and the impact of fee changes.

Aside from posing several fee and financial aid policy changes, alternative assumptions will be made about revenues forthcoming from federal, business and

industry, other private, and lottery sources. Against this, staff will examine the need for expenditures under different enrollment demand assumptions and the availability of State general fund and local property tax revenues under current taxing policy. Finally, alternative expenditure (delivery, organization, etc.) and revenue (majority vote local property taxes, etc.) scenarios will be examined.

Fiscal Policy Recommendations

In assessing different policy alternatives, the study will utilize the literature on who should support postsecondary education; i.e., looking at the resource allocation (costs and benefits) and resource distribution (access, etc.) consequences of Community College education. Notions of who should pay – taxpayer vs. student – and who benefits – economic development, etc. will be examined.

This analysis should lead to an assessment of alternative fiscal policy recommendations covering at least the following:

- expenditure policies and their consequences,
- fee and financial aid policies,
- expectations about the role of business and industry, and
- new sources and techniques of funding.

The Board may want to conclude its work with some statement of the future consequences for Californians of not addressing the Community College funding gap

General Note: For maximum impact, the report should be brief – if possible, no longer than two dozen pages – with an executive summary that clearly details the major conclusions and policy recommendations. Liberal use of figures and graphs would, as always, enhance this work.

CSU The California State University

FUNDING GAP STUDY

Preliminary Report

January, 1992

Response to Item 6610-001-001 of the *Supplemental Report of the 1991 Budget Act, 1991-92 Fiscal Year.*

FUNDING GAP STUDY

According to the *Supplementary Report of the Committee on Conference Relating to the 1991-92 Budget Act*, the California State University is to complete a "Funding Gap Study", as follows

The Legislature requests the CSU Board of Trustees to document the extent of the current gap, if any, between state appropriations for the CSU and funding that is needed to fully support the State university's current mission under the State Master Plan for higher education. The review shall include where possible an identification of the consequences of the funding gap on program quality and student access. This review should include the Trustees' plans and priorities for maintaining their mission under the current state funding scenario, accompanied by recommendations to the Governor and Legislature on future state policies for financing the CSU. A preliminary review should be forwarded to the Governor, Legislature, and the CPEC by December 15, 1991. The segment's final report shall be transmitted to the Governor, Legislature, and the CPEC by April 1, 1992. The CPEC shall comment on the segment's final report, and transmit its comments to the Governor and Legislature by May 1, 1992. The final segmental report should be managed so as to invite public comment on the Trustee's recommendations.

This report constitutes the first part of the required Funding Gap Study, that is, the preliminary review.

THE PROBLEM - FISCAL ISSUES

The creation of a funding gap was a phenomenon several years in the making. In this section, we provide some background information to illustrate the fiscal issues that have led to the current dilemma, or funding gap.

For several years, the proportion of the state's General Fund dedicated to Higher Education has been consistently declining. The percentage of the General Fund appropriated to the various segments of Higher Education in California fell from a total of 15.8% in 1987-88 to 13.6% in 1991-92. This change represents a decline of approximately 14% in the share of the state's resources appropriated to the support of the three segments of public higher education in this state.

This decline is directly reflected in the fiscal resources appropriated to the California State University for the education of its students. For example, ten years ago, in 1981-82, the state appropriated \$962.6 million to the CSU. To allow a more convenient comparison from year to year, this support level can be converted to \$4,064 per full-time equivalent student (FTES). A decade later, in 1991-92, the total General Fund appropriation had grown to \$1,645.3 million or \$5,871 per FTES. However, when the support levels are adjusted to reflect the actual purchasing power of the appropriated funds, the figures reveal a decrease over the decade of 9.5%. (Constant dollars, 1982-83 = 100) These data are summarized in the following table

Table 1. Comparison of Net General Fund Appropriations to CSU (1981-82 to 1991-92)

Year	Net General Fund (in millions)	Budgeted FTES	GF Approp per FTES (constant \$)
1981-82	\$ 962.6	236,850	\$4,309
1991-92	\$1,645.3	280,220	3,919
Change (%)	+ 44.5%	+15.4%	- 9.5%

Over the last five years, the decline in appropriations has been considerably more dramatic. The level of support in 1987-88 (when ——— adjusted to a constant dollar base) amounted to \$4,657 per FTES. For the current fiscal year, this level had dropped precipitously to \$3,919 per FTES. This represents a decline in purchasing power of 15.9% over the last five years¹. Most of this decline in support has occurred in the last two years.

Perhaps the clearest expression of the budget difficulties faced by the CSU is the observation that the current dollar budget actually declined by 3.4% from last year to this in spite of a significant increase in budgeted enrollment. (See Table 2)

**Table 2. Comparison of Net General Fund Appropriations to
CSU (1990-91 and 1991-92)**

<u>Year</u>	<u>Net General Fund Appropriations</u>	<u>FTES Budgeted</u>	<u>Gen Fund per FTES (current \$)</u>	<u>Gen. Fund per FTES (constant \$)</u>
1990-91	\$1,702.7 mill	274,500	\$6,203	\$4,342
1991-92	\$1,645.3	280,220	\$5,871	\$3,919
Change	-3.4%	+2.1%	-5.3%	-9.7%

If the CSU were merely to have maintained the 1990-91 quality of operations (no increase in the number of students or the quantity or intensity of services) the university would have required a budget increase of approximately \$113 million (5%) to cover the increased costs occasioned by salary commitments, price increases, physical plant expansion, etc. The fact that the budget actually decreased by more than \$57 million means that the CSU was short more than \$170 million of the amount necessary to maintain last year's work force and service levels.

In order to adapt to this extraordinary course of events, the Trustees developed and put into operation a budget reduction plan for the 1991-92 fiscal year. The plan approved by the Board of Trustees, after extensive consultation with all constituencies in the CSU, attempts to minimize further erosion of student access and deterioration of academic program quality.

Even with this goal, a budget reduction of the size discussed above must necessarily have a profound impact on almost all operations throughout the entire university. The budget of the CSU and its 20 campuses is composed largely (almost 88%) of personnel costs (faculty, staff, and administration). It is not possible to achieve the level of required savings without adversely impacting the individuals (students, faculty, and staff) in the California State University.

The Trustee plan required the permanent reduction of 868 non-faculty positions across the system, including the system office. These staff reductions include administrators, student services personnel, clerical staff, and maintenance personnel. Their loss has seriously affected the level and quality of services provided students, faculty, and members of

the public. The necessity for layoffs has been lessened somewhat by the provision of early retirement incentives.

The quality of the academic programs provided to students was hurt by the loss of over 400 faculty and department chair positions. They were purposely held vacant to achieve part of the required savings. These faculty positions, had they been available to the campuses, would have allowed another 1,600 additional course sections per term during 1991-92. Another 229 faculty positions were unavailable when funding for sabbatical leaves replacements was deleted. These replacement positions would have allowed an additional 1,000 course sections per term. Finally, another 420 faculty positions were vacated as faculty took advantage of early retirement incentives. They were, for the most part, senior individuals with considerable experience. In many cases, the positions vacated were not filled. In other cases, the replacements were junior faculty with lower salary requirements, thus generating savings. Although estimates in this case are difficult to make, we believe that another 1,000 to 1,200 course sections per term were cancelled or not scheduled because of vacancies.

Finally, the budget reductions have required the layoff of many individual faculty members. Layoff notices have been sent to more than 1,000 faculty individuals. This number does not include those part-time faculty whose contracts were not renewed due to a lack of funds.

The total impact of all these faculty reductions is the cumulative loss of 3,800 to 4,000 course sections per term cancelled or not scheduled. Clearly, a significant number of students have been hurt by the required budgetary savings. A quantitative summary of this issue is provided in the accompanying chart which provides data on course sections offered the current Fall term compared to the two previous Fall terms (see Chart 1). The chart shows that a total of 4,963 fewer course sections were offered in Fall 1991 compared to Fall 1990. Ordinarily, one would have anticipated a significant gain in the number of course sections offered based on the original FTES premise of the Trustee's budget (a growth of approximately 2% in FTES was projected prior to the announcement of the fiscal emergency).

These reductions in course sections lead inevitably to larger class sizes and fewer course choices for students. (Average class sizes for lecture and large lecture courses have increased from 34 students in Fall, 1980 to 43 in Fall, 1990, an increase of 26.5% over the decade.) In the former case, larger class sizes permit less attention by the faculty member to

the academic needs of individual students. Fewer course choices lead to a delay in graduation for students who cannot find space in sections of courses required for graduation. The campuses have made extensive efforts to maximize the course opportunities available to students. To achieve this critical aim, resources have had to be reallocated from all other functions of the university, thereby hurting these operations.

Extensive staff reductions have been required in order to cope with the budget reductions. Faculty have less clerical assistance available and have even less time to spend on professional and instructional development tasks and student advisement. There are fewer supplies available. Equipment purchases are often cancelled or postponed, denying students the opportunity to work with up-to-date and functional equipment. The basic campus infrastructure is at risk since preventive maintenance activities are severely curtailed or eliminated entirely.

In addition to the many sacrifices cited above, it has been necessary to reduce the purchase of library books and subscriptions to professional journals. Also, on many campuses, personnel reductions have led to a significant reduction in the hours that libraries can remain open and accessible to students.

All of the above actions have damaged program quality!

PROGRAM QUALITY

The following discussion of program quality identifies specific areas hurt by decreasing levels of resource support in the California State University.

Several variables will affect how an individual campus addresses a budget crisis. These variables include the following:

- configuration of majors. High percentages of science and engineering majors result in greater equipment needs,
- mix of graduate and undergraduate programs. Standards for quality are higher for graduate programs (e.g., "Implementation Plan for the Recommendations on Graduate Education," CSU Board of Trustees Agenda, September 1991),
- maturity/age of the institution. Institutional constraints and opportunities vary with growth patterns,

- size in terms of enrollments, FTES, faculty, and physical plant, and
- style of institutional leadership both administration and faculty

Campus reduction strategies fall into three general categories: (1) programs, (2) personnel, and (3) support services

Programs To the extent possible, campuses have insulated the instructional program from the fiscal crisis. Academic programs are the last things to be cut. As one president put it, transient fiscal conditions should not determine long-term academic priorities. However, at some point, programmatic choices become unavoidable. The basic decision involves choosing between pro-rata cuts (which maintains the existing academic structure, although at a lower level of quality) and selected program cuts, the former provides temporary relief, while the latter often produces more fundamental and permanent savings while decreasing the size of the instructional program. In either case, the disciplinary range of teaching and learning is diminished.

Beyond these general approaches for coping with budget reductions, there are three areas where the quality of academic programs has been hurt by budget reductions:

- **Instructional Equipment Funding** New and replacement equipment purchases usually are among the first casualties of budget cuts. Inability to make such purchases has direct and immediate consequences for academic quality. Technical and laboratory based disciplines are especially vulnerable to declines in program quality. For example, for 1991-92, the CSU estimated that \$25,931,109 would be required in instructional equipment replacement funding simply to keep the inventory from becoming more obsolete (it would require about \$200 million to replace the entire backlog of CSU instructional equipment that is beyond its average useful life). Only \$13,421,000 was appropriated, and \$3 million of the reduced appropriation was needed to address the budget shortfall. Campuses further reduced equipment purchases and used the funds to avoid additional staff reductions.

Delaying equipment purchases is tempting because a short delay doesn't have the long-term consequences for faculty and staff.

recruitment that layoffs of any duration have. Extended delays, however, deprive students of the opportunity to work with the tools with which employers in business, industry, and education expect them to be familiar. Laboratory instruction accomplishes its objectives only when students can use reasonably up-to-date equipment required by the discipline and not be distracted by inoperable, intermittently operable, or ill-calibrated machines, or too many students to a workstation.

- **Operating Expense Budgets** Virtually all programs must operate with decreased OE budgets, which creates a diffuse but pervasive impact on instructional delivery. Program quality decreases as support levels decrease for such important academic items as costs for duplicating materials (e.g., class handouts), computer media, attendance at professional symposia, office supplies, student assistants, subject matter reference materials, and other miscellaneous instructional support materials. For the most part, operating budgets are used to pay for maintenance contracts for the upkeep and repair of instructional, computer, and office equipment. In many cases, equipment is not in use since maintenance contracts are not properly funded. If proper and sufficient laboratory supplies are not available, laboratory instruction is necessarily modified from what is pedagogically required to that which is fiscally feasible. Demonstration laboratories often replace 'hands on' experiments since the necessary laboratory supplies are not available.
- **Lottery Funds** Most campuses have "raided" lottery funds to offset budget reductions in traditional areas, even though lottery funds are intended, by law, to *supplement* the support for academic programs, not to supplant support. The net effect is that fewer special and innovative programs are available to students, thereby diminishing the quality of the overall academic program. Examples of areas for which lottery support is no longer available include campus arts initiatives, campus public service activities, international education, and teacher education initiatives.

Personnel Because roughly 88% of the general fund support budget is spent on personnel, most of the budget responses must revolve around faculty and staff positions.

- **Impact on Faculty Resources** Given the direct link between quality of the institution and quality of the faculty, every effort is made to avoid layoff of tenured and probationary faculty. Consequently, lecturers, graduate assistants, and temporary faculty are among the first to be cut which, to some extent, places disproportionate pressures on disciplines and campuses that are heavily dependent on such positions.

Recruitment of new tenure-track faculty is essential to disciplinary change and renewal, and to the promotion of greater gender and cultural diversity. Yet the budget crisis has forced all campuses to either postpone, reduce, or eliminate the hiring of new faculty, both curricular and faculty diversity will be directly affected. In addition, limited recruitment budgets constrict both the range and depth of the search and appointment process which often has a negative impact on the quality of the faculty who are hired.

Education is a people-intensive industry, the product is knowledge rather than materials. The combination of continuous salary and hiring freezes, staff reductions, layoff threats, increased workloads, furloughs, benefit reductions, and promotion and MSA deferrals will lower faculty and staff morale to a point where the quality of their work is threatened. Although difficult to measure and document, the programmatic implications are no less real.

- **Impact on Curriculum** Certain courses may not be taught at all if the departing faculty member represented a very specialized area. With fewer budgeted positions, fewer class sections can be offered, and larger class sizes invariably result; both student access and instructional quality are thereby reduced.
- **Larger Class Sizes.** For a given class schedule and mode of instruction, larger classes reduce the faculty's ability to attend to the needs of individual students. Earlier, we cited data regarding the 26.5% increase in average lecture class sizes over the last decade. These class size increases mean that the faculty can provide less feedback to each student on the work the student has submitted. The importance of tailoring instructional activity to individuals in a class is increasing because of increasing diversity in the student body. Tests are more likely to

be multiple-choice than essay (the tradeoff in faculty effort between test preparation and test grading favors "multiple-choice" testing in large classes), and fewer problem sets are likely to be assigned given the difficulty in finding time to read and grade them. Concern about students' communication skill development, however, would suggest the superiority of having students write more and getting more feedback on their written assignments. Cheating is known to occur more frequently in large classes. In laboratory or activity classes, larger class size implies attenuation of oversight of students' activity and consequently greater safety hazards.

Fiscal exigencies create a tendency to shift away from laboratory, activity, and seminar instruction to increased lecture-based instruction based solely on fiscal rather than pedagogical criteria. Lecture classes do not provide opportunities for students to engage the subject matter directly, under the supervision of faculty, that the other kinds of classes do. Direct, active engagement of students in learning activities has been shown to be more instructionally effective.

Assigned Time. Assigned time has been reduced. This inhibits the non-classroom-based instructional effort that the faculty can put forth. Curricular development, review, and renewal are curtailed. Faculty involvement in scholarly and creative activity—the need for development of disciplinary expertise does not end with a "terminal degree"—languishes. As with deferred maintenance of physical facilities, "deferred maintenance" of curriculum and faculty skills/knowledge can allow programs to slip into obsolescence and ineffectiveness and undermine the enormous university investment in providing coursework. There is also less time for student advising (further reducing the ability of the campus to accommodate individual students' needs and making injudicious student choices of classes more likely, which further delays students' progress toward degrees). There is less time for faculty participation in facility planning, which can lead to buildings not as well suited to academic needs and therefore a poorer cost-benefit ratio for capital outlay.

Support Services. At least three types of support services have been prime targets of budget reductions on the campuses. First, there are fewer student assistants available for academic support services in the library, computer center, and tutoring labs, these units also are open fewer hours.

due to the reductions in operating expenses. Second, staff reductions have resulted in fewer hours and services for advising, counseling, financial aid, and health centers, which can have indirect effects on the amount and quality of student learning. Third, plant maintenance suffers which, too, produces undesirable effects on the quality of campus life in general.

One campus has commented on the deterioration of support services by citing the following issues, among others. In general, reduced staffing in the area of support services has created extremes of workload and inflexibility in coordinating work schedules. Many campus offices have reduced hours and are unavailable except during these restricted times. Thus, neither students nor faculty can get questions answered (e.g., admissions and records) in a timely fashion. This leads to the loss of many frustrating hours trying to get information as students and faculty waste time trying to complete schedules. Course advisement in such an environment becomes inordinately difficult. Campus computer centers, business offices, and libraries are far less accessible than previously.

The deterioration in support services such as Counseling have a particularly debilitating effect, particularly on residential campuses. This is reflected best in an anecdote from the Director of Counseling on one such campus.

The current waiting list in Counseling consists of over 80 people. The average waiting time is from two to three weeks. It is likely that some of those on the list at the moment may not be seen by semester's end. It is certain that many who come in between now and the end of the semester will not be seen. What is unknown is how many are discouraged from coming in at all when they hear that there is a two or three week wait.

We have always tried to keep an hour or two free for crisis situations, but those have been so numerous in recent weeks that even our crisis hours are booked three to four days in advance. Counselors are burning the candle at both ends trying to meet the need and knowing there is no easy answer to the student who is at the desk asking for help.

Finally, the lack of proper facility maintenance leads to accelerated deterioration in physical facilities. Buildings are not cleaned each day and necessary repairs and upkeep are deferred, with attention given only to the most extreme emergencies. In the CSU, facilities are heavily used from early in the morning until 10 at night. Regular custodial and

maintenance services are a necessity for the health and safety of students and faculty

PROGRAM QUALITY - CONCLUSION

There are no short-cuts to educational quality. As funding for higher education decreases, academic quality is hurt and the educational potential of all students is not fully realized. From the standpoint of long-term human capital, budget reductions for education amount to permanent losses to the state of an economic and social nature.

We appreciate that the concept of quality is a relative one with its definition often depending on unique standards and needs. However, it is clear that the CSU cannot continue to accept all qualified students desiring to attend as required by the Master Plan for Higher Education. Instead, we will need to assess most carefully the available resource base and determine the number of students to whom a quality educational experience can be made available in a reasonable time frame and at an affordable cost. The alternative of providing an education without the appropriate level of quality is unacceptable.

ACCESS ISSUES

Student access to higher education in California is both an issue of pride and a challenge to the state. California's higher educational institutions have consistently led the nation in enrollment diversity and growth -- a trend that mirrors California's status as one of the fastest growing and diversifying states in the nation. California's population now stands at 30 million and is projected by the California Department of Finance to grow to 36 million by 2000 and to almost 39 million by 2005. A significant portion of this growth is attributable to California's role as the new Ellis Island for introducing Latino and Asian immigrant talent into American society. California, which sits at the gateway to the dynamic economic rim of the Pacific Basin, will need a labor force in the 21st century that is substantially larger, more college-educated and prepared to meet the challenges of an international economy and society. The health of the California economy and its way of life will depend significantly on the extent to which higher educational institutions in California effectively incorporate and educate its growing and diverse citizenry for this future.

During the '80s when demographers projected little or no potential for enrollment growth, enrollments at several CSU campuses soared to ceilings mandated by instructional and facility capacities. Indeed, in

1989, the California State University opened a new campus at San Marcos. This is the first new public institution offering baccalaureates and masters degrees to be built in California in more than two decades.

Five major factors drove CSU enrollment growth in the '80s. First, Asian, Filipino, Mexican and other Latino immigrant and refugee children entered California elementary and secondary schools in unprecedented numbers.

Second, no one fully grasped the degree to which nonwhite youngsters *could and would* be motivated and prepared to continue educational pursuits into college. The flow of California high school graduates, for example, to the CSU as entering first-time freshmen increased during the '80s, and virtually all of the added first-time freshman surge into the CSU's educational pipeline is attributable to increases in the enrollment of nonwhite first-time freshmen. Asian Americans historically have invested heavily in higher education, so it wasn't particularly surprising to find that 200 of every 1,000 Asian American public high school graduates in California are entering the CSU as first-time freshmen. It has been somewhat more surprising to see the Filipino participation rate increase markedly toward the Asian American mark. Nearly everyone, however, has been surprised to learn that among California public high school graduates, CSU first-time freshman participation rates among African Americans and Latinos are rising consistently and at a pace where parity with white counterparts seems attainable in the next few years. For every 1,000 white public high school graduates in California, 90 enter the CSU as first-time freshmen. The rate for African Americans was 73 per 1,000 in 1985, rising to 88 per 1,000 in 1989. The rate for Latinos was 58 per 1,000 in 1985, rising sharply to 77 per 1,000 in 1989.

Third, the annual undergraduate transfer flow into the CSU historically has been about twice the size of annual first-time freshmen, and the annual transfer flow held steady at 60,000 during the 1980s -- despite several downturns in community college enrollments, the CSU's primary source of transfers.

Fourth, the CSU has been successful in plugging up leaks in its own part of the educational pipeline. That is, CSU student persistence to degree (retention) has been improving significantly and this improvement is responsible for part of the CSU's enrollment growth in the '80s. For example, from the 1973 entering class of first-time freshmen, about 460 per thousand students eventually received a baccalaureate from the CSU; the 1983 entering class, which is much more diverse than its 1973

counterpart, is projected to reach a graduation rate of over 510 per thousand ¹ Data are in hand that suggest that the eventual graduation rate of undergraduate transfers to the CSU is nearing parity with the graduation rate of transfers to the University of California

The fifth factor driving CSU enrollment growth and diversification is the most important to this study on funds required for the CSU to support its mission During most of the years since the CSU was created, the state has projected enrollment demand, then supplied roughly sufficient facilities, faculty, and funding to the CSU system to accommodate the demand

Despite real dollar reductions during the '80s, the CSU strengthened its commitment and action on issues of equity in higher education Especially since the 1986 issuance of *Educational Equity in the California State University -- Which Way the Future?*, CSU outreach efforts have evolved into an intensive collaborative and comprehensive undertaking that engages every stage of the student pipeline It reaches students early in their middle school experience, addresses college preparation and recruitment in high school, intensifies outreach and articulation in the community college, and increases support for students to pursue postgraduate and doctoral studies

Getting underrepresented minorities into college has been only the first phase of the CSU equity program Along with the Educational Opportunity Program, initiated in 1969 CSU campuses have designed and implemented Summer Bridge programs, Intensive Learning Experience programs in mathematics and English, and programs involving Faculty Mentoring and Faculty Student Mentoring These programs have been successful in enhancing student retention However, the nature and extent of the current budget crisis which continues to undermine all aspects of student support services threatens the integrity of these outreach and retention efforts

Earlier in this report, we summarized the Trustees Reduction Plan that was put into effect in Spring 1991 in order to attempt to deal with the 1991-92 budget reductions The first principle underlying the plan was

¹In the publication, *Those Who Stay 1980 First-Time Freshmen*, the CSU reports on the finding that the five-year persistence rate for CSU first-time freshman cohorts provides an excellent forecast of the eventual graduation rate The Division of Analytic Studies is in the process of designing and implementing a study focused on the persistence to graduation of CSU undergraduate transfers

"The plan should maintain the CSU's historic commitment to the California Master Plan for Higher Education and to educational equity for all Californians "

The Trustee reduction plan for 1991/92 explicitly protects funding for educational equity programs from further reductions. With respect to access, there is *no* evidence in Fall 1991 that *qualified* students have been denied admission to the CSU -- consistent with legislative intent. Individual campuses of the CSU have had to monitor and manage new student enrollments in order to provide sufficient instructional service for continuing and new students, but systemwide application for admission as upper-division transfers and first-time freshmen were handled in nearly normal fashion.

Although CSU's overall enrollment declined from 1990-91 levels (1991-92 projected enrollment level, based on reported Fall enrollments is 270,050 FTES - see Chart 2, we believe that for new undergraduates, continuing upper-division students, and the two largest underrepresented minority groups (African Americans and Latinos), Master Plan, Legislative, and Trustee provisions generally were maintained in Fall 1991.

THE 'ACCESS GAP'

The enrollment decline experienced in the current academic year (see Chart 2) is a direct reflection of the extraordinary budget reductions that the CSU has had to face over the last five years. The magnitude of these reductions was discussed earlier in this report. The net result of these budget reductions (and accompanying fee increases) has been an actual decline in enrollment from 1990-91 levels. This occurred in spite of demographic projections that suggest a significant enrollment increase. For example, the 1991-92 enrollment projection on which the Trustees' budget submission was based and upon which the Governor's budget was premised was 280,220 FTES. Subsequently, during budget hearings in the Legislature last Spring, this projection was revised to 269,220. The calculated enrollment for 1991-92 is 270,220 FTES. This is a decline of 8,671 FTES from the enrollment level reported for 1990-91¹. The enrollment decline is not surprising in view of the drastic actions that campuses instituted as a result of the budget shortfall. (See Chart 1 for a summary of the drop in course offerings over the last year.)

Current projections of enrollment for 1992-93 are highly dependent on the budgetary support that will be available. During their November 1991 meeting, the CSU Board of Trustees indicated that a budget support level

of at least \$6,536 per FTES would be necessary to maintain even current enrollment levels. The Statewide Academic Senate has proposed an even higher support level from the General Fund, \$6,994 per FTES. Should these support levels not be attained, it may become necessary to increase student fees substantially, to decrease enrollments even further, or to find additional ways to reduce the budget even further. This last alternative seems rather doubtful since there is general unanimity among campus and system level administrators that program quality has been seriously compromised by the current budgetary support levels, and that many of the reductions taken this year were of a one-time nature and cannot be continued.

The data presented in this report suggest that it may no longer be possible to fulfill the basic premise regarding access to all qualified students of California's Master Plan for Higher Education. This represents a significant departure from a promise that has served this state and its workforce very well since the creation of the first version of the Master Plan in 1960.

The California State University remains committed to the tenets of the Master Plan for Higher Education, especially to the need to provide access to higher education for those individuals who have been historically under-represented in the system. However, budgetary stringencies have forced the CSU into the position of creating an artificial "access gap" based on the availability of state fiscal support. The CSU is aware of the importance of university graduates to the economic well being of this state.¹ Nonetheless, access without appropriate levels or quality is *not* an acceptable alternative.

To illustrate the current dilemma, the decline in enrollment from last year to this (8,700 FTES) represents an access gap of a campus approximately the size of CSU, San Bernardino. The projection of approximately 272,650 for 1992-93 represents a decline from official demographic projections of almost 14,000 FTES, or a campus the size of CSU, Chico. The issue confronting the state of California is how to keep the "access gap" from creating an artificial barrier to higher education for those qualified citizens who seek it.¹

ATTACHMENT 1.

COMPARISON OF SECTIONS TAUGHT FALL TERMS, '89, '90, '91

Campus	Fall '89	Fall '90	Fall '91	Change from Fall '90	Notes
Bakersfield	804	756	641	-115	a
Chico	3473	3464	3061	-403	a
Dominguez Hills	2027	2276	2138	-138	b
Fresno	3567	3698	3560	-138	a
Fullerton	3276	3345	3094	-251	a
Hayward	1632	1569	1513	-56	a,c
Humboldt	1988	2035	1913	-122	a
Long Beach	4788	4834	4717	-117	a
Los Angeles	2677	2610	2288	-322	
Northridge	4173	4272	4051	-221	
Pomona	3013	2953	2731	-222	
Sacramento	3993	3947	3633	-314	a
San Bernardino	1293	1368	1392	24	
San Diego	4728	4646	3454	-1192	
San Francisco	4337	4087	3629	-458	a
San Jose	4620	4822	4279	-543	a
San Luis Obispo	3476	3495	3197	-298	
San Marcos	0	61	142	81	a
Sonoma	1288	1359	1204	-155	d
Stanislaus	861	941	938	-3	a
TOTALS	56014	56538	51575	-4963	

Notes.

Supervision course sections are excluded from all counts.

(a) Data reported by the campus were not corrected for cross-listed courses. Figures here have been adjusted by the Fall 1990 ratio of cross-listed courses.

(b) Data reported by the campus did not include the Statewide Nursing Program. The number of SNP courses from Fall '90 have been added.

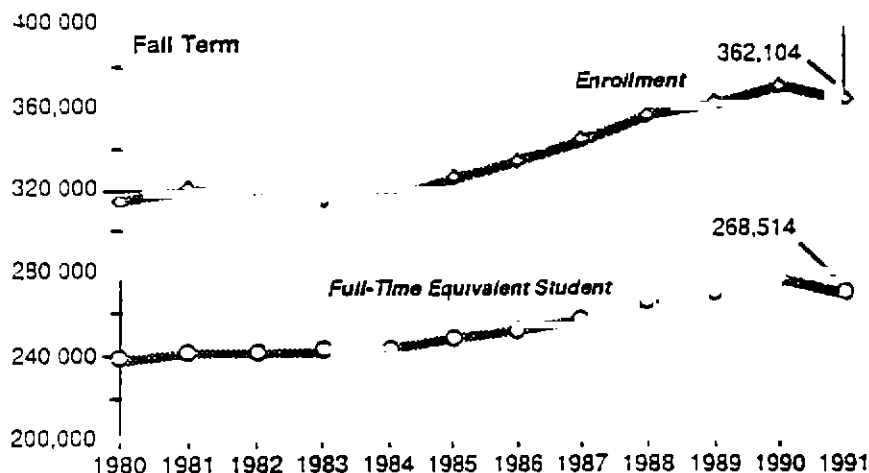
(c) The campus reported an estimate.

(d) The campus data did not separate lecture/laboratory courses into two sections. Thus, the number is undercounted.

Revised 11/18/91

State Budget Reductions Impact CSU Fall 1991 Enrollment

CSU Fall Enrollment and Full-Time Equivalent Students, from 1980 to 1991



Fall 1991 Reveals Enrollment Drop

The California State University System shows a drop of nearly 7,000 students this fall. The October census survey, conducted by the Chancellor's Office, Division of Analytic Studies, reveals a total enrollment of 362,104 in fall 1991, down from 369,053 in fall 1990. The decline amounts to a 1.9 percent drop in enrollment.

Largest CSU Campuses Show Largest Declines

At fifteen CSU campuses, enrollments decreased anywhere from a few to over 2,000 students between fall 1990 and fall 1991 terms. The two largest campuses of the CSU, San Diego and Long Beach, reported enrollment drops of 2,367 and 1,652, respectively. The fall survey confirms the severity of state budget reductions: the CSU was forced to serve fewer Californians this fall.

State Budget Forces Higher Education Service Downward

The CSU requested \$2.1 billion for 1991-92 but only received

\$1.645 billion - some \$400 million less. The impact of 1991/92 state budget on CSU enrollments is unprecedented. The CSU never before has experienced drops in both fall student headcount and FTES.

Over the last several years, CSU campuses have instituted an unprecedented number of cost containment activities and program reductions, most have avoided impact on service levels. The current year's budget problems are so severe that the Trustees had to institute a reduction program that impacts all activities on campuses.

CSU campuses were forced to manage instructional services down to levels in line with reduced state dollars. More than 3,000 faculty were laid off or were not rehired. Nearly 5,000 classes have been removed from the fall 1991 schedule. Library hours and purchases have been reduced, and instructional equipment purchases and maintenance have been delayed.

CSU Approves "Survival Budget" for 1992-93

The 1992-93 budget situation

promises to be no better than the current year's. At its November meeting, the Board of Trustees assessed that the CSU could no longer continue to enroll students without the funds to provide quality instruction to them. Visits to campuses and talks with students convinced Trustees that access is an empty promise without quality services.

The Trustees adopted as a starting point for budget negotiations a modest request of \$1.778 billion for 1992/93. This "survival budget" request keeps enrollment for 1992/93 at essentially the 1991/92 level and maintains this year's unit level of budget support. A minimal provision for enrollment increase at six CSU campuses also is requested, but this increase still leaves a gap between demand for CSU services and actual service levels of well over 10,000 students. The Trustees authorized the Chancellor to adjust the CSU enrollment and budget requests consistent with the availability of state resources to provide access and quality instruction.

Critical Public Policy Issues

The current budget crisis strikes at the very heart of the California Master Plan. The single most critical public policy issue now is whether the State can and will provide the levels of support necessary for the CSU to meet its historic assignment in the Master Plan. If funding is insufficient, public policy dialogue will necessarily focus on issues of access, quality, and mission. If access must be limited, serious questions must be addressed on who will be excluded from low-cost quality higher education.

Table 1. Fall Term Enrollment in the California State University, from Fall 1980

Fall Term Enrollment												
Campus	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Bakersfield	3 153	3 400	3,334	3 383	3 609	3 776	4 320	4 642	4 920	5 219	5,443	5 441
Chico	13 929	14 276	14 024	14,129	14,196	14 667	14 862	15,457	16 031	16 526	16,641	15 680
Dominguez Hills	7 883	8,269	8 322	8 269	7,926	7 649	7,327	7 869	8,106	8 817	9,450	10,360
Fresno	15 553	16,242	16,170	16,293	16 454	16 918	17 756	18 364	19,124	19 586	19 962	19 819
Fullerton	22,470	23,284	23,399	22,997	23,034	23 445	24,277	24 317	24,700	24 961	25 602	25 486
Hayward	10,666	11,483	11,624	11,978	12 072	12 173	12,373	12,388	12,637	12,825	13 000	13,067
Humboldt	7,419	7,460	7,047	6,430	6,113	6 220	5,865	6 252	6 724	7 301	7,654	7,824
Long Beach	31,239	31,928	32,034	31 492	31,124	32,519	33 586	34 926	35,363	32,975	33 991	32,339
Los Angeles	21 942	22,180	21 668	20 539	19 576	20 525	20,773	20,912	20,926	20 806	21 596	21,000
Northridge	28 417	28,026	28,134	27 794	28,144	28 871	29,880	29 718	31,575	30,674	31,167	30,441
Pomona	15 912	16,170	16 558	16 701	17 024	17 207	17,679	18,317	18,930	19 579	19 472	18 777
Sacramento	22,190	22,662	21,671	21,636	22 483	23 313	23,673	24 128	25,153	25 559	26 339	25,868
San Bernardino	4,659	4,961	5,060	5 450	5 847	6 513	7,423	8 367	9 673	10 873	11 927	12,561
San Diego	33,544	33,714	31,642	32 494	33 898	34 322	35 010	36 280	36,193	35 954	35,489	35 422
San Francisco	24,128	24 467	24,386	23 966	24,170	25 143	25,871	26,002	28,132	29 284	29 340	27,911
San Jose	25 221	24,945	25 427	25 081	24 843	25 479	26,507	27,549	28,415	29,847	30 338	30,110
San Luis Obispo	16 048	16,392	15 486	15 624	15 968	16 140	15,875	16,049	16,553	17 566	17,756	17 571
San Marcos	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	448	1,102
Sonoma	5,567	5,423	5,552	5,380	5 364	5 491	5,746	6 159	6,669	7 080	7,627	7 535
Stanislaus	3,910	4,283	4,276	4,264	4 160	4 255	4,621	4,971	5,282	5,506	5,811	5,790
Systemwide	313 850	319,565	315 814	313 900	316 005	324 626	333 424	342,667	355 106	360,838	369 057	362 104

Note: Fall 1991 figures are from fall opening term enrollment reports. Off-campus centers included in campus total.
Dominguez Hills Statewide Nursing Program not included in campus totals.

Table 2. Fall Term Full-Time Equivalent Students in the California State University, from Fall 1980

Fall Term Full-Time Equivalent												
Campus	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Bakersfield	2,388	2,495	2,473	2,568	2 641	2,891	3,189	3 444	3,750	3 963	4,119	4 188
Chico	12,493	12,790	12,661	12 785	12,752	13 017	13,023	13,394	13 864	14 321	14 438	13 711
Dominguez Hills	5,503	5,804	5,991	6 010	5,721	5,524	5 016	5,116	5,243	5,759	6,113	6 713
Fresno	13,032	13,384	13 647	13 874	13 990	14,157	14,710	15 155	15,643	15,849	16,157	16,211
Fullerton	15,666	16 294	16,356	16 316	16 312	16 651	17,008	17,216	17,523	17,845	18,139	17,270
Hayward	7,972	8 526	8,793	9 049	9 113	8 975	9 069	9 043	9 146	9 409	9 574	9,665
Humboldt	6 852	6 802	6,703	6 091	5,709	5 808	5 306	5 652	6,234	6,740	7,047	7,156
Long Beach	22,012	22,380	22,833	22 596	22,379	23 375	23 961	24,755	25 108	23,267	24,174	22,611
Los Angeles	14 274	14,520	14 650	14 130	13 360	13 919	14 015	13,978	13 913	13,943	14 550	13,954
Northridge	20 241	19,868	20 231	20,163	20 180	20 755	21,308	21,191	22,465	21,709	21,980	21 461
Pomona	13 229	13,365	13,689	13 798	13 760	14 136	14 248	14 442	14 888	15 418	15 407	14 758
Sacramento	17 375	17 752	17,172	17 266	17,779	18 162	18 070	18,283	18 914	19,301	19,838	19 451
San Bernardino	3 430	3 658	3 791	4 125	4 463	4 909	5 539	6,261	7 374	7,613	8,443	9 105
San Diego	25 352	25 464	23 999	25 143	26 035	26 156	26 512	27 051	26 912	26,713	26 703	24 547
San Francisco	17 736	17,704	17 956	17 825	17,854	18,412	19,013	19 101	20 515	20 985	20 833	19 766
San Jose	18 542	18 084	18 624	18 638	18 349	18 803	19 375	20 047	20,813	21 866	22 065	21 638
San Luis Obispo	14 826	15,113	14 345	14,397	14,693	14 650	14 430	14 521	14 766	15,620	15 876	15 661
San Marcos	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	283	726
Sonoma	4,334	4,182	4 383	4 233	4 182	4 182	4,400	4 629	5 008	5,442	5 906	6 043
Stanislaus	2,575	2,777	2 867	2 898	2 918	2 816	3 117	3 276	3 455	3,669	3,865	3 879
Systemwide	237 832	240 952	241 164	241 905	242 090	247 298	251 309	256 555	265 534	269 492	275 510	268 514

Note: Fall 1991 figures are from fall opening term enrollment reports. Off-campus centers included in campus total.
Dominguez Hills Statewide Nursing Program not included in campus totals.

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January 9, 1992

Dr. Warren Fox
Executive Director, California Postsecondary
Education Commission
1020 12th Street, 3rd Floor
Sacramento, California 95814

Dear Warren:

I am writing in response to Item 6440-001-001(2) of the Supplemental Report of the 1991 Budget Act regarding the Funding Gap Study which states:

The Legislature requests the UC Regents to document the extent of the current gap, if any, between state appropriations for the UC and funding that is needed to fully support the university's current mission under the state Master Plan for higher education. The review shall include where possible an identification of the consequences of the funding gap on program quality and student access. The review should include the Regents' plans and priorities for maintaining their mission under the current state funding scenario, accompanied by recommendations to the Governor and the Legislature on future state policies for financing the UC. A preliminary review should be forwarded to the Governor, Legislature, and the CPEC by December 15, 1991. The segment's final report shall be transmitted to the Governor, Legislature, and the CPEC by April 1, 1992. The CPEC shall comment on the segment's final report and transmit its comments to the Governor and Legislature by May 1, 1992. The final segmental report should be managed so as to invite public comment on the Regents' recommendations.

This letter and its attachments constitute the University's preliminary report on its funding gap. The first attachment is the University's 1992-93 Budget for Current Operations, the University's annual budget request to the State. In developing the budget for 1992-93, the University thoroughly reviewed the extent to which specific areas of the budget are underfunded. Consequently, many sections of the budget contain a description of the extent of funding shortfalls and trace the history of the underfunding. The second attachment is a copy of remarks presented to The Board of Regents at its November meeting which contain an assessment of the impact and consequences of inadequate funding of the University's budget, both for the short-term and the long-term. The information provided in both documents has been thoroughly discussed and commented upon by the Board.

I believe the current situation can be better understood in the context of what has happened in recent years. Prior to 1984-85, there were many years of declining State support, aggravated in the late 1970s and early 1980s by a procession of harmful budget cuts. Beginning in the 1984-85 budget, the State implemented a multi-year plan to restore the University's fiscal health. That plan produced remarkable results for several years, including greater success in recruiting distinguished faculty, improved resources for instructional programs and research, and new and renovated facilities on our campuses. Critical as those gains were, they have since eroded--slowly at first, largely as the result of inadequate funding for the impact of inflation on the nonsalary portion of the budget, and then sharply accelerating over the past two years.

In 1990-91, State funding allowed the University to provide competitive salary and benefit increases; to meet fixed cost increases and inflation, at least partially; and to fund essential budget items such as undergraduate enrollment growth and maintenance of new space. The University also was able to meet its highest priority, which was preserving the quality of its teaching programs. That desirable outcome was achieved at a cost, however. In order to balance the budget, reductions of five percent were required in research and public service programs and in general administration. Also, student fee increases of about ten percent were required for both resident and nonresident students.

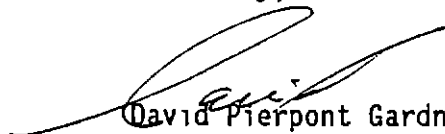
For 1991-92, as the result of a State budgetary crisis of unprecedented magnitude, State funding for the University fell far short of the amount needed to maintain existing programs adjusted for inflation and enrollment growth. That budgetary shortfall, which totaled over \$212 million, forced many painful decisions within the University. Salaries for all faculty and staff are frozen at last year's levels; student fees have increased by \$650 a year; budgeted enrollments have been reduced by a total of 5,500 students; the workforce has been reduced permanently by over 1,700 persons; primarily through early retirement and attrition; graduate enrollment growth has been deferred for the second year in a row; instructional equipment purchases have been reduced; and deferred maintenance budgets have been cut. These are unavoidable consequences of the State's fiscal problems and the need to balance the University's budget.

The actions taken by the University to address the recent fiscal crisis were necessary to protect the quality of the institution, particularly with regard to instructional programs. The University's commitment to provide access to the top 12.5 percent of California high school graduates, in keeping with the Master Plan, has been honored. However, it is clear that the State's fiscal crisis continues unabated and, in fact, will continue for the long-term, according to a Department of Finance report which states that "No matter how strong its economic recovery, the State will not be able to fund existing programs at current levels within projected tax revenues." Such a bleak forecast will force the State to make extremely difficult choices among programs.

The University's highest priority has been, and will continue to be, preservation of the quality and excellence of the institution. The University cannot repeat many of the actions taken to absorb the cuts in the last two years and still maintain quality. If State funding continues to fall short of our basic needs, the University will have no choice but to look at the possibility of further increases in student fees and/or imposing tuition for the first time in the University's history. And if the combination of State funding and student fee income still falls short, the only alternative left will be to reduce enrollments and academic programs to match available resources.

These alternatives present the University and the State with very difficult and complex public policy issues. In the next few months, as budget negotiations continue, the University will work to clarify the possible consequences of these alternatives and in accordance with the legislative language, we will submit a final report by April 1, 1992.

Sincerely,



David Pierpont Gardner

Attachments

cc: The Honorable Pete Wilson
The Honorable Alfred Alquist, Chairman
Joint Legislative Budget Committee
The Honorable Robert Campbell, Chairman
Assembly Ways and Means Subcommittee #2
(Attn: Mr. Daniel Alvarez)
(Attn: Mr. William Furry)
The Honorable Nicholas Petris, Chairman
Senate Budget and Fiscal Review Committee #1
(Attn: Mr. Patrick Lenz)
(Attn: Ms. Julie MacDonald)
Ms. Elizabeth Hill, Legislative Analyst
Mr. Thomas Hayes, Director of Finance
Ms. Judy Day, Department of Finance
Mr. Stuart Marshall, Legislative Analyst's Office
Senior Vice President William Frazer
Vice President William Baker
Director Stephen Arditti

REGENTS MEETING
NOVEMBER 15, 1991

PRESIDENT DAVID P. GARDNER
VICE PRESIDENT WILLIAM B. BAKER
UNIVERSITY OF CALIFORNIA

1992-93 REGENTS' BUDGETS
FOR CURRENT OPERATIONS AND CAPITAL IMPROVEMENTS

(GARDNER)

The 1992-93 Regents' Budgets for Current Operations and Capital Improvements were presented for discussion last month. Today, the budgets are presented for formal approval by the full Board as recommended by the Committees on Finance and Grounds and Buildings.

Last month we discussed the State of California's deteriorating fiscal condition and related concerns about the University's budget prospects. Those concerns bear repeating today given their extremely serious implications.

I reported last month that State tax collections are falling below projections and that job losses are greater than previously thought. Through the end of October, the shortfall in State revenues is \$528 million, or 4.7 percent less than the budget forecast. This problem is compounded by higher-than-anticipated expenditures for health and welfare programs. Growth in these programs was projected at about 8 percent this year, while actual growth to date is about 12 percent. The State budget is also affected by problems with Federal reimbursements, possible

adverse court decisions, and projected savings that may not materialize. The Commission on State Finance is now projecting a deficit of about \$3 billion by the end of this year, including roughly \$1 billion attributable to increased expenditures and \$2 billion attributable to revenue shortfalls. Assuming the reserve is used to bail out the budget, the final deficit for 1991-92 might be in the neighborhood of \$2 billion. The outlook for 1992-93 is unclear at this point, given the uncertainties surrounding revenue and expenditure trends. We will know more when we see the Governor's January budget proposal.

From a University perspective, the situation is even more threatening than in the past. In part, this is because the University's resource base has already been seriously weakened, leaving us essentially no flexibility for absorbing further budgetary damage. We have experienced major budget shortfalls over the last two years as well as long-term underfunding for the impact of inflation on the nonsalary budget. In the current year, as you know, we were required to deal with a budgetary — shortfall of \$312 million, or about 15 percent of our State-funded operating budget. Adding to our problems is a high budgetary savings target which means that we receive only 96 cents from the State for every dollar of approved program funding.

Increases to the University's budget have averaged only 2.7 percent a year for the last 4 years, which is less than half the average annual increase that we need to meet inflation, fixed costs, and workload growth. Erosion of the University's State-funded budget is reflected in the fact that only ~~30 percent~~ of UC's income now derives from the State General Fund; in 1980, it was 40 percent."

Although the timing remains unclear, we can be certain that the State's economy will improve at some point. However, the University's prospects for catching up when that happens are dimmer than in the past. We must now compete for State revenue with health and welfare programs, K-14 education, and prisons--all of which have been growing at an explosive rate, and much of which prior to Proposition 13 was funded by local government. As a consequence, UC's share of the State budget has dropped from a high of about 5.8 percent in the middle eighties to about 5 percent currently. Moreover, we are severely disadvantaged in the competition for funds by the fact that most health and welfare programs, K-14 education, and the community colleges enjoy constitutional or statutory protections. We do not. The University's budget is wholly at the discretion of the Governor and Legislature and we are, thus, vulnerable.

With respect to the 1992-93 budget, the concerns I have just expressed are heightened by the fact that the State now has fewer

options for dealing with a budget shortfall, given the extraordinary actions already taken to balance the State's current-year budget.

At this point, Vice President Baker will present a brief summary of the 1992-93 Regents' Budget. Following his presentation, I will continue with a discussion of the budgetary outlook and options that are open to us.

(BAKER)

Thank you, President Gardner. Let me begin with the University's total operating budget. This is projected at \$7.5 billion for 1992-93, which is an increase of about 7 percent over the current year. In addition, the Federal government will appropriate \$2.5 billion for operation of the Department of Energy Laboratories.

The focus of my remarks is the University's State General Fund budget for operations, which is proposed to increase by 9.8 percent or about \$212 million. This would bring our State General Fund budget to \$2.4 billion. The proposed increase is intended to maintain the University of California's budget base: It includes funds to provide competitive salaries, to take account of inflation, to meet other unavoidable costs, and to

support enrollment growth. While the budget also includes a few selected program improvements, it emphasizes our understanding that these requests can be considered only if the State's fiscal condition allows. Based on what we know now, it appears virtually certain that no improvements will be funded.

I will review, first, our request for salary and benefit funds. Nearly \$91 million is requested to fund the estimated cost of faculty and staff salary increases for the full year. The University traditionally requests a faculty salary increase on the basis of salaries at eight universities used for salary comparison purposes. The budget estimated that an increase of about 6 percent would be required. As you know from the item presented yesterday, that figure is now 7 percent based upon updated information.

A faculty salary increase ranks among our most critical needs for next year. With no salary increase for faculty in the current year--and no merit increase either--we have fallen behind the competition. It is essential that our competitive position be restored next year. We must not slide back to the situation of the early 1980s; at that time, University salaries lagged far behind the comparison institutions and this demonstrably affected our ability to recruit first-offer candidates.

For staff, the University's policy is to request a salary increase that is equal, on the average, to the increase provided to State employees. Our budget estimates that this will be about 4%, but I have to say that this now appears to be optimistic.

Almost \$29 million is requested for merit salary increases for faculty and staff. Merit increases are never automatic. They are based on individual performance and accomplishments, and are a key factor in maintaining the excellence of the university. For the current year, as you are aware, our budget shortfall of \$312 million forced many extremely difficult decisions, including a decision to eliminate merit salary increases. It is crucial, therefore, that merits be funded next year for both faculty and staff.

As a very preliminary estimate, about \$15 million is requested to cover anticipated cost increases for health and other insurance programs for faculty, staff, and annuitants. However, the actual amount provided will be determined on the basis of the State's continuing policy of providing benefit increases for University employees at the same level provided for State employees. An additional \$5.5 million is requested to continue 1991-92 benefit increases for faculty and staff on a full-year basis. The budget also seeks \$732,000 for increased Social Security costs.

The budget includes a request for over \$13 million to offset the impact of inflation on our nonsalary budget. This represents a 4 percent increase for the nonsalary budget, based on our detailed analysis of a whole range of separate expense categories such as classroom and laboratory supplies, utilities, and library subscriptions. Inflation represents an unavoidable cost increase; it must be funded one way or another. Funds to meet inflation are essential for this reason, and also because the University has been underfunded for inflation in the nonsalary budget for a long time.

The budget also includes \$21 million to fund the replacement of instructional equipment. The quality of academic programs depends in part on the regular replacement of outmoded or nonfunctional equipment and, thus, we consider funds for this purpose to be essential.

Funding for the Keck Observatory in Hawaii is requested in the budget. As you know, Caltech is responsible for construction of the facility while UC is responsible for annual operating costs. One half of the University's obligation will be met from University funds. State funds in the amount of \$2.8 million are requested to meet the remaining half of the University's commitment.

The University's request for funds to support enrollment growth is consistent with the long-range enrollment planning report presented to The Regents in March and, at the undergraduate level, is consistent with Department of Finance projections.

The budget seeks over \$8 million for an increase of 1500 FTE undergraduate students; \$5-1/2 million for an increase of 1100 FTE graduate students, and about \$1 million for 100 additional graduate academic students in the health sciences. The funds will maintain our current student-faculty ratio by providing faculty positions and related support to keep pace with enrollment growth. Another \$1 million is requested for additional library staff, and \$935,000 for financial aid, to support the anticipated growth in enrollments.

We are requesting \$3-1/2 million to operate and maintain additional space eligible for State funding that will come on line during the budget year. This reflects the enrollment growth of recent years and related growth in funding for our capital budget.

State and Federal law require that the University provide academic support services, such as interpreters for the deaf and readers for the blind, for students with disabilities. We are

requesting about \$2 million to fund the full actual cost of providing such services.

The budget document places highest priority on maintenance of the base budget through adjustments for inflation, workload, and fixed cost increases--the budget items that I have just reviewed. The budget also includes a few requests for improvement in areas of special need but, as I indicated earlier, there is virtually no chance that these will be funded. I will not take time to review our requests, therefore.

The budget does not include a recommendation on student fee levels for 1992-93. Language in this year's Budget Act states legislative intent that the 1991-92 student fee increase beyond 10 percent be considered a one-time surcharge, which means that three-quarters of our total forty percent increase would be considered one-time. The legislative language goes on to state, and I quote:

It is the intent of the Legislature to review the continuation of the surcharge in relation to overall funding for the University in 1992-93 and to adequately fund the University in 1992-93 such that the surcharge not be required.

Given this intent by the Legislature, we are proposing to take no action on student fee levels for 1992-93 until the level of State support is known. Our current plan is to provide a preliminary recommendation on student fee levels to The Regents in January or February based on the Governor's Budget for the University, with a final recommendation in July following passage of a budget by the Legislature and signing by the Governor.

That concludes my discussion of the operating budget. Let me now provide a brief overview of the capital budget.

The capital improvements budget for 1992-93 requests \$247 million of State funds, which is about the same as proposed in the past adjusted for inflation. Very difficult choices were required in order to keep the budget at this level, given the reduced capital funding provided in the current year due to failure of the bond issue last November and the extraordinary magnitude of the University's needs. These needs result from rapid enrollment growth, changes in technology--particularly in science disciplines, and the aging of all of the University's campuses. Our capital budget also reflects the backlog of unaddressed needs that developed during the middle to late 1970s and early 1980s, including projects to improve seismic safety.

I want to emphasize that funds requested in the capital budget are needed to support the University's existing campuses;

any future action to develop a 10th campus will require funding specifically for that purpose.

Funds requested in 1992-93 will support primarily those projects already approved by the Governor and the Legislature. Working drawings, construction, or equipment funds are now required for those projects. A limited number of new projects are included in the budget request, and some minor capital projects are included as well.

Funds needed to support the capital budget would be drawn from a general obligation bond issue for higher education that, if enacted by the Legislature, will appear on the general election ballot in June or November of 1992, and from revenue bonds to be authorized by the Governor and the Legislature. The importance of the general obligation bond issue to the capital programs of the three segments of public higher education in California cannot be over-emphasized.

That concludes my discussion of the capital budget.

(GARDNER)

The budget that has just been described is a reasonable and modest request. Nonetheless, the State is not in a position to fund it, at least not at any level that we might consider satisfactory. We have received this message unequivocally in our recent preliminary discussions with the Department of Finance. Choices will have to be made.

My own belief, which I have often stated and which the Board has long supported, is that maintenance of the University of California's capability and essential quality must remain our highest priority. Therefore, we are in the process of re-examining our budget proposal to determine what it will take--at bare minimum--to meet that priority. Once that has been determined, we must then look at funding options in addition to State funds because the latter will most likely prove insufficient.

In thinking about what is absolutely essential, restoration of UC's competitive position in the academic marketplace comes immediately to mind. The excellence of the University depends most critically upon our success in recruiting and retaining outstanding faculty and this, in turn, depends upon our ability to make competitive offers. Merit salary increases, for both

faculty and staff, are also essential to maintenance of quality because they recognize and reward performance.

We cannot avoid the impact of inflation on the nonsalary budget and, thus, funds for that purpose have to be provided from one source or another. We have already lost far too much ground in the nonsalary budget as the result of long-term underfunding for inflation. For example, there is now a funding shortfall of over \$15 million in the budget for library acquisitions, leaving the University short by over a quarter of the amount needed to maintain the book budget. We cannot afford further erosion of the nonsalary budget.

Other essential items that come to mind include at least some funds for the replacement of obsolete instructional equipment, funds to support unavoidable fixed costs such as Social Security, and funds to support prior commitments such as operating funds for the Keck Observatory.

The Regents' Budget requests funding to support projected demand for undergraduate admission and to increase graduate enrollments. Graduate education is central to the mission of the University and to the long-term economic health of the State. Maintenance of program quality in a major research university such as ours depends upon maintenance of an appropriate

proportion of graduate students; thus, I include growth in graduate enrollments among the essential items to be funded.

During this period when the Governor's Budget is being developed, we will be working with the Governor and his staff to define the University's essential needs and to discuss alternatives for support of those needs. Let me say that the alternatives do not include repetition of many actions that we have been forced to take over the last couple of years. Some would be impractical to repeat; others cannot be repeated because they jeopardize the quality of our programs. I refer to actions such as providing no salary increase and no merit increase to our employees; ~~permanently~~ reducing the workforce by over 1,700 positions through a voluntary early retirement program; cutting our budgets for research, public service, and administration by 10 percent; deferring graduate enrollment growth for two years in a row; and cutting back on instructional equipment replacement and maintenance projects.

Increasing the student-faculty ratio is another alternative that has been suggested. UC's ratio is 17.6:1 while the average at our salary comparison institutions is a more favorable 14.1:1. The private institutions in the group have significantly lower ratios than the public institutions; the average ratio of the public group is similar to UC's ratio. An increase in UC's student-faculty ratio would strike at the heart of the quality

issue. During the late sixties and early seventies, State resources did not keep pace with rapidly expanding enrollment and as a result our student-faculty ratio deteriorated about 20 percent at that time. We have never recouped the loss, even in good times. We must defend against a repetition of that scenario because it is a process of slow erosion without end and without reversal. If we allow that to happen, we will find one day that we have lost our claim to quality.

As I have discussed with the Board in the past, there are basically only two alternatives open to us if State funding proves inadequate. One is to increase student fees even further. For the current year, as you know, we raised fees for resident students by \$650 as one of many actions taken to accommodate the budget shortfall. Even so, it turns out that University of California ~~resident~~ students are paying somewhat lower fees this year, on average, than other students enrolled in public universities of our kind. For 1992-93, we may have to consider a substantial fee increase and/or consider imposing tuition on California resident students for the first time in the University's history. The imposition of tuition would occur only as the result of the State's incapacity to fund the University's basic instructional budget. The difference between fees and tuition is generally understood to be that tuition involves support for instructional departments. We currently use student fee income to support a substantial share of the budgets for

libraries, operation and maintenance of plant, and general administration in addition to support for student services and student financial aid.

Consistent with our past practice, financial aid would be provided to cover the fee increase for students who are defined as financially needy, including students with middle-income parents.

If State funding and student fee income, taken together, prove inadequate to meet the University's essential needs, then we will have only one alternative left and that is reducing enrollments to match the available resources. On a temporary basis, at least, this would mean abandoning the Master Plan's promise of a place at the University for all qualified California residents seeking undergraduate admission. In all of our past fiscal difficulties, we have never done this. We would do so next year only if there is no other way to maintain the quality of our programs. It is in any event a preferable way to manage enrollment than by admitting all UC-eligible students wishing to enroll knowing that classes could not possibly be made available to them.

Last month we discussed informally the extraordinary complexities that would be involved in choosing among fully qualified and motivated applicants. How do we decide which of

them will be admitted? Under the Master Plan, the UC-eligible pool is defined as the upper 12.5% of California public high school graduates. This figure, 12.5%, is an average across all racial and ethnic groups. If you disaggregate it, you will find that 33 percent of Asian Americans completing high school in this State are UC-eligible compared to 16 percent eligibility for Whites, 5 percent for Hispanics, and 4.5 percent for African Americans.

Under UC's admissions policies, all UC-eligible applicants who apply are admitted, although not necessarily at campus of choice or in major of preference. At Berkeley, for example, at the freshman level we have roughly 20,000 applicants to fill 3,500 spaces, and about 8,000 of the applicants are students with a 4.0 high school grade point average. As you can see, we could fill all of Berkeley's spaces with 4.0 students and still turn away several thousand such students. Of course, no university in the country admits only 4.0 students, and neither does Berkeley. What this means, of course, is that for every 3.5 student admitted, Berkeley turns away a 4.0 student by definition. The 3.5 student is fully eligible and the 4.0 student is offered a place on one of our other campuses, although, again, not necessarily the campus of first choice or in major of preference.

Our present admissions process works as long as we are able to grow, as long as we are able to offer every qualified

applicant a place somewhere within the system. But what happens when we have no place anywhere in the UC system to offer the rejected 4.0 student? Our admissions data show that the 4.0 students are overwhelmingly Asian Americans and Whites, and the 3.5 students are disproportionately Hispanics and African Americans. Clearly, the racial and ethnic dynamics of the situation are not inconsequential. The need for UC to grow will directly influence the social cohesion of the State of California and the educational opportunities available to all young people who have prepared themselves for University of California work.

The simplest approach, of course, would be to change our undergraduate eligibility pool from 12.5 percent of California's public high school graduates to some lower percentage. Sufficient notice would need to be given prospective students, their parents, and high school counselors. Moreover, the limitations would apply not just to entering freshmen but to transfer students as well, along with some graduate and professional school students.

We have looked at the facts and we have developed what everyone agrees are realistic, even conservative, projections of future enrollment demand for UC. If the State cannot afford to support that demand, then there are two choices: We can either maintain quality by limiting access, by scaling the scope of our programs to match our resources--or we can keep our doors open,

attempt to do what we are now doing but with fewer resources, and watch quality slowly fade away. The latter course, while a less immediately visible option and a more politically palatable one because it would occur over time, would in the end be the less honest and more insidious road to travel. We should reject that road or at least not willingly travel it.

The Governor's January budget proposal will give us a preliminary indication of the resources we can expect for 1992-93. We will report to the Regents in January or February on our plans for accommodating whatever budgetary problems are evident at that time, recognizing that the situation may change by July when the final Budget Act is signed. Timing is a sensitive issue in all of this. Students are now applying for 1992-93 admission and we normally send acceptance letters beginning in February. We do not wish to alarm applicants unnecessarily, nor do we wish to provide false reassurance. We will have to decide what message to send if there is any likelihood that access will be limited. Similarly, in the interests of giving students as much advance notice of the facts as possible, our January or February report to the Regents will also include a preliminary recommendation on student fee and/or tuition levels for next year.

Regardless of how the 1992-93 budget turns out, the painful and complicated issues involved in choosing among qualified

applicants may have to be faced in the foreseeable future, even if not immediately. The Department of Finance has just released a paper that discusses demographic and other trends that, if continued, will shape the future of our State. Its chilling conclusion is, and I quote:

No matter how strong its economic recovery, the State will not be able to fund existing programs at current levels within projected tax revenues. With rapidly increasing caseloads, (the)...imbalance between taxpayers and tax receivers could result in a \$20 billion budget gap (that is, a 20 percent gap) in the year 2000.

The paper contrasts California's taxpayers, typified by working-age adults 18 to 64 years old, with California's so-called "tax receivers," which are generally students, the poor, the elderly, and inmates of our State prisons. In a departure from California's past, the tax receiver group is now growing much more rapidly than the taxpayer group. During the 1980s, California's working age population increased nearly twice as fast as the school age population. Based on current demographic trends, however, the working age population is projected to grow only half as rapidly in the 1990s as in the 1980s. At the same time, K-12 enrollments could increase three times faster than the working age population.

Contributing to the problem, there has been a net exodus over the last two years of Californians in the high earning group aged 45 to 64 years old. According to the DOF paper, the California Business Roundtable has reported that, "Fourteen percent of business leaders have plans to relocate their operations to sites outside of California and another 41 percent plan to expand operations outside the State." Among other worrisome trends: During the 1980s, the number of AFDC children grew by 42 percent and Medi-Cal eligibles grew by 38 percent. Both of these groups are projected to grow even faster in the 1990s, with AFDC caseloads projected to grow 140 percent and Medi-Cal 60 percent by the year 2000.

The paper provides troubling data on the ratio of taxpayers to tax receivers over time. In 1980, there were 1.2 taxpayers for every tax receiver; by the year 2000, there will be 0.8 taxpayers for each receiver if current trends continue. Looking at just AFDC recipients, in 1980 there were almost 7 taxpayers for each recipient but that will drop to about 3 taxpayers per recipient by 2000. As another example: In 1980, there were around 350 taxpayers for each prison inmate; by the year 2000, taxpayers per inmate drop to just over 80. The latter, especially, represents a staggering change with enormous implications for our society, or what will be left of it if these trends remain unchecked.

Using the concept of a dependency ratio--meaning the ratio of persons under 18 and over 64 to persons within the working-age group, the paper informs us that California's dependency ratio is projected to rise ten percentage points in the 1990s. The dependency ratio in the other 49 states is expected to decline, on average, during the same period. In other words, California will have fewer people of working age supporting its dependent population while other States will have more. The paper asserts that California will be at a competitive disadvantage if it raises taxes to meet increased demand for government services. Tax increases could prompt working age Californians to leave the State, making the problem even worse.

Given the facts, and assuming that current demographic trends continue, the paper's conclusion appears all too realistic. Specifically, assuming that revenues return to their historic growth rate of about 7 percent a year and assuming that demand for government services continues to escalate, there will be only \$85 billion a year to fund programs projected to cost nearly \$105 billion a year by the end of this century.

Let me provide one final quote from the paper, drawing from its lead paragraph:

The competition for available funds will be fierce. While funding for all State programs will be in jeopardy, higher education, state prisons, and state operations will be particularly vulnerable to reductions in levels of funding because they do not have the constitutional and statutory protection of most education, health, and welfare programs.

The message is sobering and depressing. In the face of this unwelcome vision of the future, our task is to work with public policy decision makers to help achieve an outcome that better serves the interests of the State and its citizens. The University of California has made fundamental contributions to the long-term fiscal health and economic competitiveness of the state. Continued support of higher education represents an investment in the future with the certainty of enormous if incalculable returns, both tangible and intangible. Conversely, unless higher education is properly supported, immeasurable losses will accrue in terms of citizens not educated to their full productive capacity, potential research breakthroughs never pursued, public service programs allowed to die.

The State faces extremely difficult choices among socially useful and necessary programs. The Board of Regents, the University community, and our friends will need to join together in getting across the message that California cannot afford to

neglect higher education even in times of fiscal crisis. We must persuade Californians that the long-term effects of neglect would prove far more costly than providing adequate support on a regular basis.

***Appendix E* California Student Aid Commission Report**

MAINTAINING CALIFORNIA'S STUDENT FINANCIAL AID COMMITMENT

PRELIMINARY REPORT

I. INTRODUCTION

This preliminary report examines the role of state-funded financial aid in California's planning for future postsecondary enrollment. It addresses the need for adequate financial aid to ensure continuous access to higher education for economically disadvantaged students over the next decade and a half. Specifically, the report discusses and identifies the state's current funding gap for the Cal Grant programs administered by the California Student Aid Commission and the consequences of that funding gap for student access to higher education.

The report is in response to the Supplemental Report of the 1991-92 Budget Act, containing various statements of intent or requests for studies adopted by the California Legislature during its consideration of the 1991-92 State Budget. The request reads as follows:

The Legislature requests the Student Aid Commission to document the extent of the current gap, if any, between state appropriations for the Commission's Cal Grant programs and funding that is needed to fully support the grant programs' current mission under the state Master Plan for higher education. The review shall include where possible an identification of the consequences of the funding gap on student access and on how students meet the costs of their education when grant funds are inadequate. This review should include the Commission's plans and priorities for maintaining their mission under the current state funding scenario, accompanied by recommendations to the Governor and the Legislature on future state policies for financing the Cal Grant programs. A preliminary review should be forwarded to the Governor, Legislature, and the CPEC by December 15, 1991. The Student Aid Commission's final report shall be transmitted to the Governor, Legislature, and the CPEC by April 1, 1992. The CPEC shall comment on this final report, and transmit its comments to the Governor and Legislature by May 1, 1992. The final Commission report should be managed so as to invite public comment on the Student Aid Commission's recommendations.

The recent and extraordinary rise in demand for student financial aid is due not only to student population growth, but also to rising college costs and reductions in federal grant aid during the 1980's. California has utilized its Cal Grant programs to support access to higher education for low- and middle-income students. Statewide enrollment projections indicate that need for these programs will increase substantially in the coming 15 to 20 years. One of the state's goals is to continue to provide access to higher education for students with insufficient economic means. The Cal Grant program has a proven record as one vehicle for continuing to make this access available.

The economic opportunities California has to offer continue to attract people from a variety of other states and countries. An analysis of the state's current demographic trends suggests that California's population will continue to grow in a pattern familiar since World War II, expanding from its current level of 28.8 million in 1990 to 36.3 million in the year 2010. The outcome will be a larger and more diverse state, with more students from different ethnic backgrounds entering all levels of public and private education.

Despite a substantial current dropout rate and a predicted decline in the high school graduation rate, the actual number of students graduating from California secondary schools is expected to boom in the next 15 years. In 1989-90, the state graduated 250,772 students from California high schools. Of the new public high school graduates (approximately 91 percent of the total), 45 percent were from underrepresented ethnic groups. The California Department of Finance projects that 379,285 students will graduate from public schools in the year 2005. In the same year, 57.5 percent of high school graduates (or 218,089 students) will come from currently underrepresented ethnic groups.

With the anticipated growth in the number of students graduating from high schools in the next decade and a half, the number of students in need of financial aid is very likely to increase. Without state funding for a commensurate increase in awards, the gap between the number of qualified students who apply for financial assistance and the number of available awards will widen. This report discusses the existing and likely consequences of that funding gap.

As a preliminary response to the Legislature's request, this report provides a broad framework for discussing financial aid funding issues. The final report will include more comprehensive financial data and a discussion of the Commission's plans and priorities for maintaining its mission under the state Master Plan for Higher Education.

II. CALIFORNIA'S STUDENT FINANCIAL AID COMMITMENT

The state's Cal Grant program provides low- and middle- income students, many of them from ethnic groups traditionally underrepresented in postsecondary education, with a significantly greater chance of studying beyond high school. Each year, about 80,000 California college students receive \$180 million in financial aid grants through this program.

The Cal Grant A program helps low- and middle-income students meet their tuition and fee costs at the California State University, the University of California, and eligible independent and proprietary institutions. The Cal Grant B program assists students who come from economically and educationally disadvantaged backgrounds with both tuition and fees and living expenses. Cal Grant C is a much smaller program oriented toward vocational students. It provides vocational training assistance to low- and middle-income students in areas of manpower need.

The California Student Aid Commission awarded a total of 31,220 new Cal Grants in 1991-92. The awards included 17,400 Cal Grant A, 12,250 Cal Grant B, and 1,570 Cal Grant C awards. The "new" Cal Grants are the number of first-time awards that can be provided to students in any fiscal year. Once they receive a first-time Cal Grant award, students may renew them annually for up to the equivalent of four years of college education if they continue to meet certain eligibility standards.

This report discusses only the state's Cal Grant programs. A number of smaller financial aid programs are administered by the Commission and public colleges also administer a variety of programs funded through state General Fund resources.

Financial Aid and the Achievement of Equity

State financial aid planning is critical as California anticipates future postsecondary enrollment growth. Without sufficient financial aid, enrollment in postsecondary institutions is far less likely to reflect the state's diversity among the various income and ethnic groups.

The California Student Aid Commission's fundamental philosophy is to provide students access to educational institutions of their choice. It is important that state-funded student aid be "portable"—that it be awarded to the student rather than to the institution.

The challenge to provide both access and choice through state financial aid is the focus of the Cal Grant A and B programs. Since the initial intent of the Cal Grant A program was to provide students with the opportunity to enroll at either an independent or a public four-year institution, this program has been associated with achieving the state's objective to promote choice among public and independent institutions as well as access. The Cal Grant B program is viewed as essential in achieving access to higher education because these awards go to traditionally underrepresented and very low-income students. The majority of these students attend low-cost community colleges.

Stability and Diversity

The state faces an emerging population of high school graduates that must be accommodated in postsecondary institutions. Without sufficient financial assistance, most low-income and disadvantaged students will never have this opportunity. Moreover, the recent 10-year pattern of declining Cal Grant recipient enrollment at non-public postsecondary institutions must be stabilized so that overall educational choice is not restricted and so California can continue to rely on all of its educational resources to provide postsecondary education to its citizens. If this current trend continues, the financial pressure on the state to accommodate greater public sector enrollment will only increase.

Most of the future college-going population will come from minority ethnic groups, often from low-income backgrounds. Without the necessary financial means, the ability of these individuals to afford higher education will be limited and their college options diminished. The balanced presence on campuses of students from underrepresented ethnic groups will depend on several factors. Of these, financial assistance is one of the most important. A guarantee of adequate financial aid could motivate more high school graduates from low-income and minority groups to attend postsecondary institutions. Providing educational opportunity to all, regardless of economic means, is the guiding principle of the state's financial aid commitment.

Demand Outstrips Availability of Financial Aid

Despite California's substantial commitment to financial aid, the amount of funds is simply insufficient to meet the level of need. With rising college costs, relatively stable family incomes, and limited federal aid and campus resources, more students each year seek assistance from the state's Cal Grant programs. Because the number of awards is limited, the Commission uses several financial criteria to establish students' general eligibility for awards, including the determination of financial need based on federal standards and income and asset ceilings. Even when these steps are taken, more students demonstrate eligibility than can be provided with an award; specifically, there are about three eligible applicants for every award that can be provided. In other words, of all students who apply and pass the financial eligibility thresholds, at least two-thirds are denied grant awards because of insufficient funding.

III. THE MASTER PLAN MISSION: A FINANCIAL AID AGENDA FOR THE 1990'S AND BEYOND

A major California public policy objective is to provide a strong system of postsecondary education accessible to all qualified residents of the state. The availability of sufficient financial aid is essential to achieving this policy objective and is recognized in the state's Master Plan for Higher Education. The state's statutory master plan, the Donahoe Act, states

"The Legislature hereby finds and declares that there is a great need of providing students with a true economic and academic freedom of choice in selecting a college or university they wish to attend. The Legislature further finds that this need shall be met by offering

students financial assistance who wish to attend public or private colleges and universities and who have demonstrated financial need."¹

Subsequent review of the Master Plan also place heightened awareness on the importance of ethnic diversity in the student population "We need, in particular, to develop plans and strategies to ensure that persons of color have genuine access to, and success in the institutions of economic mobility."² Achievement of this equity could be hampered if students or their families lack the necessary means to pay for a college education. For many students, financial assistance from the state is the key to ensuring their access to higher education.

During the process of reviewing the Master Plan for Higher Education, the Legislature examined the state's financial aid commitment and determined several long-term needs that must be met to ensure educational opportunity. The reviewers agreed that the commitment needs to be strengthened by funding a greater number of awards and increasing the size of the awards. These principles are reflected in the following statement of long-term policy, adopted through 1990 legislation:

Consistent with the state's historic commitment to provide educational opportunity by ensuring both student access to and selection of an institution of higher education for students with financial need, the long-term Cal Grant policy shall be as follows.

(a) The number of first-year awards shall be equal to at least one-quarter of the number of graduating high school seniors.

(b) The maximum award for students attending the University of California and the California State University shall, at a minimum, equal the mandatory system-wide and campus-based student fees in each of those segments.

(c) The maximum award for students attending non-public institutions shall be set and maintained at the estimated average General Fund cost of educating a student at the public four-year institutions of higher education. In accordance with this policy, the formula for determining the estimated average General Fund cost shall include both of the following

(1) The average cost of instruction and academic support, as determined by the California State University nonresident tuition methodology

(2) The average of the University of California and the California State University system-wide and campus-based student fees

(d) The implementation of the policy described in subdivisions (a), (b), and (c) shall be subject to the availability of funds appropriated for that purpose in the annual Budget Act and shall maintain a balance between the state's policy goals of ensuring student access to and selection of an institution of higher education for students with financial need.³

The Cal Grant programs also are guided by the general state mission for student financial aid programs. The most complete enunciation of state objectives for financial aid is Article I, Section 69500, of the Education Code, which states

The Legislature finds and declares that

(a) Student assistance programs have the primary purpose of providing equal opportunity and access to postsecondary education for persons of both sexes, and all races, ancestries, incomes, ages and geographies in California,

¹ State of California Education Code 66010, Section 66014.5

² California Faces California's Future: Education For Citizenship in a Multicultural Democracy. Joint Committee for the Review of the Master Plan for Higher Education, Sacramento: California Legislature. March, 1989

³ State of California Education Code, Section 66021.2

- (b) Student aid programs should enhance the ability of individuals to choose the most appropriate postsecondary educational opportunity and among different institutions,
- (c) Student aid programs should assist students to progress through the education program in accordance with the individual's educational objectives,
- (d) Student aid programs should, furthermore, complement more general statewide goals for public postsecondary education, and
- (e) State purposes regarding student aid programs should complement the purposes of federal student assistance programs to enhance the effectiveness of state programs, the state's purposes mentioned above also serve to enhance the purposes of the Pell Grant Program

Taken collectively, these primary goals and objectives of state financial aid set forth two basic priorities: educational opportunity through access to higher education programs, regardless of economic or ethnic background, and choice among educational institutions and the programs they offer. They also recognize the importance of providing financial aid directly to students and providing them with the opportunity to carry that aid to the institution that best suits their needs and abilities. The statutory goals recognize the need to increase the level of financial aid not just for the purpose of providing adequate coverage of educational costs at a variety of institutions, but also to meet the growing demand across the state for financial assistance now and in the future.

IV. ACHIEVING THE MISSION: GROWTH TO MAINTAIN EFFECTIVENESS

In order to fulfill the goals established for Student Aid Commission programs, it is necessary to both expand financial aid beyond current levels of effectiveness and to anticipate adjustments which may be needed to keep pace with changing trends in student financial needs.

While the current demand for available Cal Grant awards is great, enrollment trends indicate that the future need for financial aid is likely to increase dramatically. If grants do not increase along with the pace of growth in high school graduates, their effectiveness will continue to erode. Thus, just to maintain the historic mission of the Cal Grant programs will require substantially higher appropriations.

Keeping Pace with Enrollment Growth

For example, the Cal Grant programs served 12 percent of the recently graduated population in 1989-90. The Commission served 11 percent both in 1987-88 and in 1988-89. Maintaining the 1989-90 award level through academic year 2004-05 will require the awarding of additional new Cal Grants every year at a substantial cost (see Table I). By 2000-2001, about 41,600 new awards would be needed each year to maintain effectiveness, at least 10,000 more than the current award level. By 2004-2005, the number will grow to 46,600.

The major growth in high school graduates will not occur until the latter half of the decade. Thus, if the number of awards continues to remain stable, the state will be unable to maintain its historic financial aid commitment to California students.

The need to increase the number of Cal Grant awards in proportion to student financial needs becomes more critical each year. The rate of increase in the number of grants awarded annually has remained constant from 1988 to 1990. The number of eligible applicants, however, has increased approximately three times faster during the same period, as will be shown later in the report. This huge disparity will be further accentuated in the future by anticipated shifts in ethnic group populations.

TABLE 1
NUMBER OF AWARDS NEEDED
TO MAINTAIN HISTORICAL LEVEL OF EFFECTIVENESS
FROM 1990 TO 2005 ^b

Academic Year	Public High School Graduates	Private High School Graduates	Public and Private	Number of New Awards Needed ^a	Additional New Cal Grants
1990-1991	228,235	22,537	250,772	N/A	N/A
1991-1992	223,375	21,366	244,741	N/A	N/A
1992-1993	229,198	21,515	250,713	N/A	N/A
1993-1994	235,468	21,462	256,930	N/A	N/A
1994-1995	241,676	21,439	263,115	31,574	354
1995-1996	254,094	21,668	275,762	33,091	1,871
1996-1997	261,958	21,731	283,689	34,043	2,823
1997-1998	275,743	21,588	297,331	35,680	4,460
1998-1999	294,868	21,900	316,768	38,012	6,792
1999-2000	310,848	22,067	332,915	39,950	8,730
2000-2001	324,034	22,925	346,959	41,635	10,415
2001-2002	331,017	23,419	354,436	42,532	11,312
2002-2003	338,502	23,949	362,451	43,494	12,273
2003-2004	354,918	25,110	380,028	45,603	14,383
2004-2005	362,713	25,662	388,375	46,605	15,385

^a Figures shown represent those necessary to simply maintain the current 12 percent proportion of all California high school graduates served

^b High school graduate population equals the number of graduates in the previous academic year

SOURCE Department of Finance/California Student Aid Commission

Meeting the 25 Percent Goal

Until now this report has discussed the need for growth in awards just to stay even with high school graduates. The reviewers of the Master Plan for Higher Education had a more ambitious goal in mind. Specifically, it is recommended, both in statute and in the Master Plan documents, that the Cal Grant programs provide grants to the equivalent of 25 percent of the high school graduating class.

By any estimate, the required growth to meet this goal will be phenomenal. A doubling of authorized new awards would be needed within a six-year time frame to reach the goal. To sustain it through 2004-2005 would require a tripling of the existing number of new awards. A simple estimate of the funding required would be to double and then triple the existing \$180

million appropriation, or \$360 million within six years and then \$540 million by 2004-2005. This rough estimate does not include additional funding to meet the other half of the mission -- adequate dollar amounts for each award. It also does not address the impact of inflation.

TABLE 2
NUMBER OF AWARDS NEEDED
TO PROVIDE GRANTS TO 25 % OF HIGH SCHOOL GRADUATES
FROM 1990 TO 2005 ^b

Academic Year	Public and Private High School Graduates	Number of New Awards Needed ^a	Additional New Cal Grants
1990-1991	250,772	N/A	N/A
1991-1992	244,741	N/A	N/A
1992-1993	250,713	N/A	N/A
1993-1994	256,930	39,215	7,995
1994-1995	263,115	47,210	7,995
1995-1996	275,762	55,205	7,995
1996-1997	283,689	63,200	7,995
1997-1998	297,331	71,195	7,995
1998-1999	316,768	79,192	7,997
1999-2000	332,915	83,229	4,037
2000-2001	346,959	86,740	3,511
2001-2002	354,436	88,609	1,869
2002-2003	362,451	90,613	2,004
2003-2004	380,028	95,007	4,394
2004-2005	388,375	97,094	2,087

^a Figures shown represent those necessary to provide awards to the equivalent of 25 percent of the high school graduating class

^b High school graduate population equals the number of graduates in the previous academic year

SOURCE: Department of Finance/California Student Aid Commission

Independent Colleges: The Other Half of the Mission

The other critical need in the Cal Grant programs is for higher grant awards to keep pace with rising college costs. The amount of college tuition and fees that are covered by Cal Grant awards dropped considerably in the 1980's, both because of the pace of cost increases and the slow growth in the maximum award.

In California, both public and independent postsecondary institutions have an excellent reputation for strong academic programs and high teaching standards. The three components of public higher education—the University of California, the California State University, and the Community Colleges—enroll approximately 75 percent of the state's undergraduate college students. The remaining 25 percent of undergraduates and about 60 percent of the state's graduate students attend independent colleges and universities, many of which have academic quality and admission patterns similar to those of the University of California.

After a period of relative stability in the late 1970's, public four-year postsecondary institutions began experiencing a rise in student enrollment in 1980 while enrollment at independent colleges and universities declined. Various interrelated factors could explain this enrollment shift from private to publicly supported postsecondary institutions. Among these factors, the cost of attending school and the availability of student financial aid probably played key roles.

College enrollment behavior, an indicator of student access to and choice of academic opportunities, is affected directly by student financial resources. For students with financial need, the availability of financial aid can serve to reduce the tuition gap between the public and independent sectors. Indeed, the Cal Grant A program was originally established as a means of providing students with a choice of attending independent institutions, thus utilizing these institutions' excess capacity rather than building and staffing vast new public institutions.

In the past, the mechanism for increasing the maximum grant was not grounded firmly in policy and proved to be an unreliable basis for maintaining the effectiveness of grant coverage. In 1989 the California Student Aid Commission adopted a policy for setting the maximum grant amount in the Cal Grant A and B programs. This policy states that the maximum award in the Cal Grant A and B programs will be set and maintained at the estimated average state General Fund cost of educating a student at the public four-year colleges and universities. Using the estimating procedure recommended by the committee, the amount for 1991-92 is about \$7,200, the existing maximum is \$5,250. The policy was supported in the Master Plan review and now is one of the long-term financial aid funding goals within the portion of the state's Education Code which implements the Master Plan for Higher Education.

The policy incorporates several key principles. By not exceeding the estimated average state cost-per-student of providing a public education, the policy would ensure that the state is paying no more to help a financially needy student to attend an independent institution than it would for the student to attend a public institution. By linking the maximum grant award to average state support for public education, the maximum is set according to a cost over which the state has control, not the independent postsecondary educational institution. By equalizing public support to financially needy Cal Grant recipients in both the independent and public segments, the state is maximizing the portability of state-funded financial aid and choice among institutions and the programs offered.

The Commission has long been concerned that the shift from independent colleges may provide evidence of a decline in postsecondary enrollment options for low- and middle-income students. Public college grant awards have kept pace with fee increases, but at independent colleges this has not been the case.

V. THE CONSEQUENCES OF INSUFFICIENT FUNDING

While the Commission has not conducted sufficient research to know precisely what happens to those students who are denied Cal Grant assistance, it does know that record numbers of students apply each year and consequently that even more have to be turned away.

The number of California students applying for financial aid has been increasing at a dramatic rate. In 1987-88, nearly 122,000 students applied for Cal Grants A, B and C. Of those applicants, about 78,000 were considered eligible for an award. This number rose to 83,000 in 1988-89 and to 93,022 in academic year 1989-90, an increase of 20 percent. The 40 percent increase in total Cal Grant applications over the three-year period indicates that demand continues to increase despite the use of restrictive eligibility criteria.

Although the proportion of Cal Grant A, B and C applicants who in fact received awards improved in the mid 1980's, in 1989-90 there were still almost 62,000 needy, eligible applicants (students who completed the entire application process, met the financial need criteria, and were below the income or asset limits) or 66 percent of all applicants, who did not receive a Cal Grant award.

More than 200,000 students applied for Cal Grant assistance in 1991-92. The number who meet all financial eligibility criteria but who are denied awards due to lack of funding also is expected to grow again this year. The problem is exacerbated by the \$6.8 million reduction in the Commission's 1991-92 local assistance budget. Although final data are not yet available, the Commission expects that its tightening of award eligibility to achieve the necessary savings will result in approximately 2,500 to 3,500 fewer grant awards this year at a time when college costs are escalating.

TABLE 3
NUMBER OF ELIGIBLE APPLICANTS TO NUMBER OF AWARDS GRANTED
AS INDEX OF EFFECTIVENESS ^a

Academic Year	1987-1988	1988-1989	1989-1990
Total Applicants	121,705	150,419	170,845
Number of Eligible Applicants	78,000	83,000	93,022
Number of Grants Awarded	28,220	29,720	31,220
Annual Change in Number of Eligible Applicants	-	6.41%	12.00%
Annual Change in Number of Grants Awarded	-	5.00%	5.00%
Percentage of Eligible Applicants Receiving an Award	36.20%	35.80%	33.60%
Number of Eligible Applicants Denied Awards	49,780	53,280	61,802

^a Eligible applicant indicates a student who has completed the entire applications process, has met the financial need criteria, and was not above the income or asset ceilings.

SOURCE: California Student Aid Commission

In light of the reduced funding, some students probably will choose not to attend college at all, or select a less costly college than originally intended. Those who continue their education will likely be forced to rely even more on long-term borrowing to meet educational costs -- a vital but less desirable alternative to grants, which do not have to be repaid.

The growth in borrowing in the past three years has been substantial. The attached table shows growth in borrowing at the California State University of nearly \$36 million and increases of almost \$55 million at the University of California (both include graduate student borrowing). Average loan amounts also have increased. High borrowing is by no means limited to students attending public colleges. It is clear that part of the price of attending an independent college is substantial borrowing, with a \$65 million increase among students there in just the past three years

TABLE 4
DOLLAR AMOUNT OF LOANS GUARANTEED BY SEGMENT
(Includes both Stafford and SLS Loan Volume Amounts)

Segment	1988-89	1989-90	1990-91
Community Colleges			
Loan Volume	\$38,644,000	\$37,017,000	\$38,623,000
Percent Change	9 0%	-4 2%	4 3%
Average Stafford Loan	\$2,002	\$2,016	\$2,087
California State University			
Loan Volume	\$107,740,000	\$123,722,000	\$143,452,000
Percent Change	19 4%	14 8%	15 9%
Average Stafford Loan	\$2,639	\$2,695	\$2,767
University of California			
Loan Volume	\$104,346,000	\$124,000,000	\$159,124,000
Percent Change	27 7%	18 8%	28 3%
Average Stafford Loan	\$2,934	\$3,003	\$3,295
Independent Colleges			
Loan Volume	\$316,104,000	\$336,104,000	\$380,706,000
Percent Change	14 1%	6 2%	13 3%
Average Stafford Loan	\$4,038	\$4,097	\$4,194

VI. CONCLUSION

In the next decade and a half, the number of students graduating from California's high schools will increase significantly, with a large majority coming either from low-income families or from ethnic groups historically underrepresented in higher education. The changing demographic trends in the student population will impact the magnitude and distribution of student enrollment among the different educational segments of the state. This dramatic growth will result in larger numbers of students applying for financial assistance from the California Student Aid Commission.

A well considered financial aid policy, incorporating and balancing the many important factors discussed in this report, has an important role to play in California's planning for future postsecondary enrollment. By bringing an adequately detailed and in-depth understanding to the consideration of statewide policy decisions, California will be able to successfully promote adequate student college choice and access for the state's ethnically diverse and growing student population.

The financial aid framework is in place, but it cannot be achieved without substantially higher funding. The state's budgetary constraints have placed all of higher education at risk in achieving the Master Plan mission and threaten California's historic commitment to educational opportunity.

The final version of this report will identify the Commission's plans and priorities for maintaining the state's financial aid commitment under the current funding scenario and provide recommendations on future state policies for financing the Cal Grant programs.

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

THE California Postsecondary Education Commission is a citizen board established in 1974 by the Legislature and Governor to coordinate the efforts of California's colleges and universities and to provide independent, non-partisan policy analysis and recommendations to the Governor and Legislature

Members of the Commission

The Commission consists of 17 members. Nine represent the general public, with three each appointed for six-year terms by the Governor, the Senate Rules Committee, and the Speaker of the Assembly. Six others represent the major segments of postsecondary education in California. Two student members are appointed by the Governor.

As of April 1993, the Commissioners representing the general public are:

Henry Der, San Francisco, *Chair*
C. Thomas Dean, Long Beach; *Vice Chair*
Mim Andelson, Los Angeles
Tong Soo Chung, Los Angeles
Helen Z. Hansen, Long Beach
Mari-Luci Jaramillo, Emeryville
Lowell J. Paige, El Macero
Stephen P. Teale, M.D., Modesto

Representatives of the segments are:

Alice J. Gozales, Rocklin, appointed by the Regents of the University of California,
Yvonne W. Larsen, San Diego, appointed by the California State Board of Education,
Timothy P. Haidinger, Rancho Santa Fe, appointed by the Board of Governors of the California Community Colleges,
Ted J. Saenger, San Francisco, appointed by the Trustees of the California State University,
Kyl M. Smeby, Pasadena, appointed by the Governor to represent California's independent colleges and universities, and
Harry Wugalter, Ventura, appointed by the Council for Private Postsecondary and Vocational Education.

The student representatives are

Christopher A. Lowe, Placentia
Beverly A. Sandeen, Costa Mesa

Functions of the Commission

The Commission is charged by the Legislature and Governor to "assure the effective utilization of public postsecondary education resources, thereby eliminating waste and unnecessary duplication, and to promote diversity, innovation, and responsiveness to student and societal needs."

To this end, the Commission conducts independent reviews of matters affecting the 2,600 institutions of postsecondary education in California, including community colleges, four-year colleges, universities, and professional and occupational schools.

As an advisory body to the Legislature and Governor, the Commission does not govern or administer any institutions, nor does it approve, authorize, or accredit any of them. Instead, it performs its specific duties of planning, evaluation, and coordination by cooperating with other State agencies and non-governmental groups that perform those other governing, administrative, and assessment functions.

Operation of the Commission

The Commission holds regular meetings throughout the year at which it debates and takes action on staff studies and takes positions on proposed legislation affecting education beyond the high school in California. By law, its meetings are open to the public. Requests to speak at a meeting may be made by writing the Commission in advance or by submitting a request before the start of the meeting.

The Commission's day-to-day work is carried out by its staff in Sacramento, under the guidance of its executive director, Warren Halsey Fox, Ph.D., who is appointed by the Commission.

Further information about the Commission and its publications may be obtained from the Commission offices at 1303 J Street, Suite 500, Sacramento, California 98514-2938, telephone (916) 445-7933.

Commission Comments on the System's Preliminary Funding Gap Reports California Postsecondary Education Commission Report 92-6

ONE of a series of reports published by the Commission as part of its planning and coordinating responsibilities. Additional copies may be obtained without charge from the Publications Office, California Postsecondary Education Commission, Third Floor, 1020 Twelfth Street, Sacramento, California 95814-3985

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